EMFULENI
LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

## General Information

| | |
|---|---|
| **Mayoral committee** | |
| Executive Mayor | N.G Hlongwane |
| Speaker | M.P Gqelosha |
| Chief whip | D.E Tshabalala |
| **Members of the mayoral committee** | |
| MMC- Waste Management and Landfill Sites | V.M Godoli |
| MMC- Housing | M.L Khubeka |
| MMC- Public Safety | W.V Mcera |
| MMC- Corporate Services | K. Ntombela |
| MMC- Public Transport Roads and Public Works | S.E Pitso |
| MMC- Sports, Recreation, Arts and Culture | S.J Radebe |
| MMC- Health and Social Development | K.J.M Ranake |
| MMC- Finance | M.T Ronyuza |
| MMC- Infrastructure, Electricity, Water and Sanitation | N.R Thulo |
| MMC- Local Economic Development, Tourism and Development Planning | K. Malindi |
| **Municipal Manager** | Samuel S Shabalala |
| **Chief Financial Officer (CFO)** | Pontsho Matlala |
| **Grading of local authority** | Grade 11 |
| **Auditors** | Auditor-General of South Africa |
| **Primary banking institution** | ABSA Bank Limited |
| **Registered office** | Cnr Frikkie Meyer Boulevard & Klasie Havenga Street<br>Vanderbijlpark<br>1900 |
| **Business address** | Cnr Frikkie Meyer Boulevard & Klasie Havenga Street<br>Vanderbijlpark<br>1900 |
| **Postal address** | P.O Box 3<br>Vanderbijlpark<br>1900 |
| **Telephone number** | (016) 950 5000 |
| **Fax number** | (016) 950 5050 |
| **Email** | shabalalas@emfuleni.gov.za |
| **Website** | www.emfuleni.gov.za |

# Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature and council:

# Index

**Abbreviations**

| | |
|---|---|
| RUL | Review of Useful Life |
| NdK | Neil de Klerk (Pty) Ltd |
| DBSA | Development Bank of South Africa |
| H&A | Hill and Associates |
| GRAP | Generally Recognised Accounting Practice |
| MR | Minimum Requirements |
| CFO | Chief Financial Officer |
| IAS | International Accounting Standards |
| AUC | Assets Under Construction |
| VAT | Value Added Tax |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| DMM | Deputy Municipal Manager |
| AFS | Annual Financial Statements |
| PAYE | Pay As You Earn |
| UIF | Unemployment Insurance Fund |

# Accounting Officer's responsibilities and approval

I am responsible for the preparation of these financial statements which are set out on pages 5 to 70, in terms of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers act, 1998 (Act no. 20 of 1998) and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.

**Accounting Officer**
**S.S Shabalala**

# Statement of financial position as at 30 June 2013

| | Note(s) | 2013 R | 2012 Restated R |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2 | 127,704,348 | 127,785,784 |
| Trade and other receivables from exchange transactions | 3 | 282,265,533 | 292,068,214 |
| Trade and other receivables from non-exchange transactions | 4 | 182,502,193 | 156,960,216 |
| Inventories | 5 | 24,041,347 | 20,536,147 |
| Value added tax receivable | 6 | 71,544,737 | 70,478,041 |
| | | **688,058,158** | **667,828,402** |
| **Non-current assets** | | | |
| Property, plant and equipment | 7 | 10,461,937,668 | 10,722,315,073 |
| Investment property | 8 | 1,105,804,584 | 976,217,000 |
| Intangible assets | 9 | 20,784,914 | 24,110,495 |
| Heritage assets | 10 | 346,517 | 459,280 |
| | | **11,588,873,683** | **11,723,101,848** |
| Non-current assets held for sale and assets of disposal groups | 11 | 16,745 | 16,745 |
| **Total assets** | | **12,276,948,586** | **12,390,946,995** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables from exchange transactions | 12 | 667,692,097 | 672,387,678 |
| Unspent conditional grants and receipts | 14 | 31,229,144 | 21,339,251 |
| Borrowings | 15 | 3,435,772 | 5,268,984 |
| Finance lease liability | 16 | 2,235,990 | 23,161,407 |
| | | **704,593,003** | **722,157,320** |
| **Non-current liabilities** | | | |
| Consumer deposits | 13 | 33,938,710 | 33,537,913 |
| Borrowings | 15 | 23,485,389 | 26,920,992 |
| Finance lease liability | 16 | - | 1,050,316 |
| Provisions | 17 | 121,036,959 | 114,185,811 |
| Employee benefits obligations | 40 | 202,217,470 | 185,624,273 |
| | | **380,678,528** | **361,319,305** |
| **Total liabilities** | | **1,085,271,531** | **1,083,476,625** |
| **Net assets** | | **11,191,677,055** | **11,307,470,370** |
| **Net assets** | | | |
| Reserves | | | |
| Self-Insurance reserve | | 56,288,587 | 29,516,971 |
| Accumulated surplus | | 11,135,388,468 | 11,277,953,399 |
| **Total net assets** | | **11,191,677,055** | **11,307,470,370** |

## Statement of Financial Performance

| | Note(s) | 2013<br>R | 2012 Restated<br>R |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 18 | 2,591,388,035 | 2,201,818,620 |
| Rental of facilities and equipment | 19 | 11,195,309 | 11,439,141 |
| Finance income | 20 | 35,278,982 | 31,340,173 |
| Trade and other licenses | | 12,907 | 13,008 |
| Dividends received | 20 | 3,025 | 9,532 |
| Other income | 21 | 65,360,215 | 74,945,585 |
| **Total revenue from exchange transactions** | | **2,703,238,473** | **2,319,566,059** |
| **Revenue from non-exchange transactions** | | | |
| Property rates | 22 | 410,973,552 | 351,966,028 |
| Donations | | 42,376,223 | 20,000 |
| Fines | 24 | 34,648,500 | 36,769,542 |
| Government grants & subsidies | 23 | 842,445,849 | 847,805,070 |
| **Total revenue from non-exchange transactions** | | **1,330,444,124** | **1,236,560,640** |
| **Total revenue** | | **4,033,682,597** | **3,556,126,699** |
| **Expenditure** | | | |
| Employee related costs | 25 | (754,322,663) | (722,194,589) |
| Remuneration of councillors | 26 | (26,661,222) | (25,133,150) |
| Depreciation and amortisation | 7 | (513,855,529) | (801,147,512) |
| Impairment loss/ reversal of impairments | | (1,485,741) | (5,027,629) |
| Finance costs | 27 | (32,425,322) | (21,976,265) |
| Debt impairment | 3 | (457,427,988) | (314,129,108) |
| Repairs and maintenance | | (102,622,181) | (115,207,059) |
| Bulk purchases | 28 | (1,803,669,344) | (1,574,332,701) |
| Contracted services | | (82,581,445) | (82,414,745) |
| Grants and subsidies paid | | - | (18,178,673) |
| General expenses | 29 | (508,975,317) | (404,159,109) |
| **Total expenditure** | | **(4,284,026,752)** | **(4,083,900,540)** |
| **Operating deficit** | | **(250,344,155)** | **(527,773,841)** |
| (Loss)/gain on disposal of assets | 30 | (23,527,860) | (4,815,330) |
| Fair value adjustments | | 158,078,699 | 1,416,869,972 |
| | | **134,550,839** | **1,412,054,642** |
| **(Deficit)/Surplus for the year** | | **(115,793,316)** | **884,280,801** |

## Statement of changes in net assets

| | Self-insurance reserve<br>R | Accumulated surplus<br>R | Total net assets<br>R |
|---|---|---|---|
| **Balance at 01 July 2011** | **19,488,684** | **10,403,700,884** | **10,423,189,568** |
| Changes in net assets | | | |
| Transfers | 10,028,287 | (10,028,287) | - |
| Net transfers in net assets | 10,028,287 | (10,028,287) | - |
| Surplus for the year | - | (232,957,406) | (232,957,406) |
| Total recognised income and expenses for the year | 10,028,287 | (242,985,693) | (232,957,406) |
| Correction of error | - | 1,117,238,208 | 1,117,238,208 |
| Total changes | 10,028,287 | 874,252,515 | 884,280,802 |
| Opening balance as previously reported | 29,516,971 | 11,277,953,400 | 11,307,470,371 |
| **Balance at 01 July 2012 as restated** | **29,516,971** | **11,277,953,400** | **11,307,470,371** |
| Changes in net assets | | | |
| Surplus/(Deficit) for the year | - | (115,793,316) | (115,793,316) |
| Transfers/contribution | 26,771,616 | (26,771,616) | - |
| Total changes | 26,771,616 | (142,564,932) | (115,793,316) |
| **Balance at 30 June 2013** | **56,288,587** | **11,135,388,468** | **11,191,677,055** |

## Cash flow statement

| | Note(s) | 2013<br>R | 2012 Restated<br>R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Sale of goods and services | | 2,291,486,489 | 1,831,005,331 |
| Grants | | 852,335,742 | 807,895,660 |
| Interest income | | 35,278,982 | 31,340,173 |
| Dividends received | | 3,025 | 9,532 |
| Other receipts | | 423,633,132 | 378,146,626 |
| | | 3,602,737,370 | 3,048,397,322 |
| **Payments** | | | |
| Employee costs | | (757,539,525) | (695,218,683) |
| Suppliers | | (1,998,630,734) | (1,607,622,652) |
| Finance costs | | (32,425,322) | (21,976,265) |
| Other payments | | (540,817,197) | (451,161,071) |
| | | (3,329,412,778) | (2,775,978,671) |
| **Net cash flows from operating activities** | 31 | **273,324,592** | **272,418,651** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (246,657,028) | (190,688,920) |
| Proceeds from sale of investment property | 8 | 102,691 | - |
| Purchase of intangible assets | 9 | - | (131,578) |
| Purchases of heritage assets | 10 | (7,940) | - |
| (Increase)/decrease in non-current investment | | - | 55,000 |
| **Net cash flows from investing activities** | | **(246,562,277)** | **(190,765,498)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | (5,268,815) | (6,840,822) |
| Movement in consumer deposits | | 400,797 | 2,351,514 |
| Finance lease payments | | (21,975,733) | (74,144,625) |
| **Net cash flows from financing activities** | | **(26,843,751)** | **(78,633,933)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(81,436)** | **3,019,220** |
| Cash and cash equivalents at the beginning of the year | | 127,785,784 | 124,766,564 |
| **Cash and cash equivalents at the end of the year** | 2 | **127,704,348** | **127,785,784** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| | R | R | R | R | R |
| **Statement of Financial Performance** | | | | | |
| **Revenue** | | | | | |
| **Revenue from exchange transactions** | | | | | |
| Service charges | 2,826,991,462 | (98,307,979) | **2,728,683,483** | 2,591,388,035 | **(137,295,448)** |
| Rental of facilities and equipment | 12,614,596 | 35,487 | **12,650,083** | 11,195,309 | **(1,454,774)** |
| Trade and other licenses | 11,000 | - | **11,000** | 12,907 | **1,907** |
| Other income | 95,034,532 | (10,367,139) | **84,667,393** | 65,360,215 | **(19,307,178)** |
| Interest received - investment | 29,705,399 | 1,455,453 | **31,160,852** | 35,278,982 | **4,118,130** |
| Dividends received | - | - | **-** | 3,025 | **3,025** |
| **Total revenue from exchange transactions** | **2,964,356,989** | **(107,184,178)** | **2,857,172,811** | **2,703,238,473** | **(153,934,338)** |
| **Revenue from non-exchange transactions** | | | | | |
| **Taxation revenue** | | | | | |
| Property rates | 396,524,977 | - | **396,524,977** | 410,973,552 | **14,448,575** |
| Donations | 37,714 | - | **37,714** | 42,376,223 | **42,338,509** |
| Fines | 32,399,048 | (16,795) | **32,382,253** | 34,648,500 | **2,266,247** |
| Government grants & subsidies | 901,185,934 | 12,297,221 | **913,483,155** | 842,445,849 | **(71,037,306)** |
| **Total revenue from non-exchange transactions** | **1,330,147,673** | **12,280,426** | **1,342,428,099** | **1,330,444,124** | **(11,983,975)** |
| **Total revenue** | **4,294,504,662** | **(94,903,752)** | **4,199,600,910** | **4,033,682,597** | **(165,918,313)** |
| **Expenditure** | | | | | |
| Personnel | (693,323,964) | (59,065,788) | **(752,389,752)** | (754,322,663) | **(1,932,911)** |
| Remuneration of councillors | (32,841,253) | (4,842,147) | **(37,683,400)** | (26,661,222) | **11,022,178** |
| Depreciation and amortisation | (351,444,057) | 1,442,061 | **(350,001,996)** | (513,855,529) | **(163,853,533)** |
| Impairment loss/ Reversal of impairments | - | - | **-** | (1,485,741) | **(1,485,741)** |
| Finance costs | (11,914,964) | 2,170,834 | **(9,744,130)** | (32,425,322) | **(22,681,192)** |
| Debt impairment | (962,759,755) | 194,251,983 | **(768,507,772)** | (457,427,988) | **311,079,784** |
| Repairs and maintenance | (137,978,315) | 32,460,169 | **(105,518,146)** | (102,622,181) | **2,895,965** |
| Bulk purchases | (1,741,068,920) | 40,180,059 | **(1,700,888,861)** | (1,803,669,344) | **(102,780,483)** |
| Contracted Services | (86,408,293) | 10,009,275 | **(76,399,018)** | (82,581,445) | **(6,182,427)** |
| Grants and subsidies paid | (1,191,923) | (924,728) | **(2,116,651)** | - | **2,116,651** |
| General Expenses | (501,525,721) | (6,028,947) | **(507,554,668)** | (508,975,317) | **(1,420,649)** |
| **Total expenditure** | **(4,520,457,165)** | **209,652,771** | **(4,310,804,394)** | **(4,284,026,752)** | **26,777,642** |
| **Operating deficit** | **(225,952,503)** | **114,749,019** | **(111,203,484)** | **(250,344,155)** | **(139,140,671)** |
| Loss on disposal of assets and liabilities | 1,203,484 | - | **1,203,484** | (23,527,860) | **(24,731,344)** |
| Fair value adjustments | 224,749,019 | (114,749,019) | **110,000,000** | 158,078,699 | **48,078,699** |
| | **225,952,503** | **(114,749,019)** | **111,203,484** | **134,550,839** | **23,347,355** |
| **Deficit before taxation** | **-** | **-** | **-** | **(115,793,316)** | **(115,793,316)** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
| --- | --- | --- | --- | --- | --- |
| | R | R | R | R | R |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | - | - | - | **(115,793,316)** | **(115,793,316)** |

# Emfuleni Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| | R | R | R | R | R |
| **Statement of Financial Position** | | | | | |
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Inventories | - | 30,000,000 | **30,000,000** | 24,041,347 | **(5,958,653)** |
| Trade and other receivables from non-exchange transactions | - | 270,000,000 | **270,000,000** | 182,502,193 | **(87,497,807)** |
| VAT receivable | - | - | - | 71,544,737 | **71,544,737** |
| Trade and other receivables from exchange transactions | 507,602,365 | (132,924,260) | **374,678,105** | 282,265,533 | **(92,412,572)** |
| Cash and cash equivalents | 207,228,505 | 20,000,000 | **227,228,505** | 127,704,348 | **(99,524,157)** |
| | **714,830,870** | **187,075,740** | **901,906,610** | **688,058,158** | **(213,848,452)** |
| **Non-current assets** | | | | | |
| Investment property | - | 976,667,000 | **976,667,000** | 1,105,804,584 | **129,137,584** |
| Property, plant and equipment | 2,024,011,227 | - | **2,024,011,227** | 10,461,937,668 | **8,437,926,441** |
| Intangible assets | - | - | - | 20,784,914 | **20,784,914** |
| Heritage assets | - | - | - | 346,517 | **346,517** |
| | **2,024,011,227** | **976,667,000** | **3,000,678,227** | **11,588,873,683** | **8,588,195,456** |
| Non-current assets held for sale and assets of disposal groups | - | 16,745 | **16,745** | 16,745 | - |
| **Total assets** | **2,738,842,097** | **1,163,759,485** | **3,902,601,582** | **12,276,948,586** | **8,374,347,004** |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Borrowings | - | - | - | 3,435,772 | **3,435,772** |
| Finance lease liability | - | - | - | 2,235,990 | **2,235,990** |
| Trade and other payables from exchange transactions | 450,000,000 | (150,000,000) | **300,000,000** | 667,692,093 | **367,692,093** |
| Unspent conditional grants and receipts | - | - | - | 31,229,144 | **31,229,144** |
| | **450,000,000** | **(150,000,000)** | **300,000,000** | **704,592,999** | **404,592,999** |
| **Non-current liabilities** | | | | | |
| Borrowings | 29,988,221 | - | **29,988,221** | 23,485,389 | **(6,502,832)** |
| Provisions | - | 374,483,377 | **374,483,377** | 121,036,959 | **(253,446,418)** |
| Consumer deposits | - | 33,537,913 | **33,537,913** | 33,938,710 | **400,797** |
| Employee benefits obligations | - | - | - | 202,217,470 | **202,217,470** |
| | **29,988,221** | **408,021,290** | **438,009,511** | **380,678,528** | **(57,330,983)** |
| **Total liabilities** | **479,988,221** | **258,021,290** | **738,009,511** | **1,085,271,527** | **347,262,016** |
| **Net assets** | **2,258,853,876** | **905,738,195** | **3,164,592,071** | **11,191,677,059** | **8,027,084,988** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget<br>R | Adjustments<br>R | Final Budget<br>R | Actual amounts on comparable basis<br>R | Difference between final budget and actual<br>R |
|---|---|---|---|---|---|
| **Net assets** | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | |
| **Reserves** | | | | | |
| Insurance reserve | 25,028,773 | - | **25,028,773** | 56,288,587 | **31,259,814** |
| Accumulated surplus | 2,233,825,103 | 905,738,195 | **3,139,563,298** | 11,135,388,472 | **7,995,825,174** |
| **Total Net Assets** | **2,258,853,876** | **905,738,195** | **3,164,592,071** | **11,191,677,059** | **8,027,084,988** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|---|---|---|---|---|---|
| | R | R | R | R | R |
| **Cash Flow Statement** | | | | | |
| **Cash flows from operating activities** | | | | | |
| **Receipts** | | | | | |
| Sale of goods and services | 2,755,291,000 | 313,010,000 | 3,068,301,000 | 2,715,122,646 | (353,178,354) |
| Grants | 907,206,000 | 6,277,000 | 913,483,000 | 852,335,742 | (61,147,258) |
| Interest income | 29,705,000 | (1,697,000) | 28,008,000 | 35,278,982 | 7,270,982 |
| | **3,692,202,000** | **317,590,000** | **4,009,792,000** | **3,602,737,370** | **(407,054,630)** |
| **Payments** | | | | | |
| Suppliers | (3,123,478,000) | (37,196,000) | (3,160,674,000) | (3,296,987,470) | (136,313,470) |
| Finance costs | (11,661,000) | 2,978,000 | (8,683,000) | (32,425,322) | (23,742,322) |
| | **(3,135,139,000)** | **(34,218,000)** | **(3,169,357,000)** | **(3,329,412,792)** | **(160,055,792)** |
| **Net cash flows from operating activities** | **557,063,000** | **283,372,000** | **840,435,000** | **273,324,578** | **(567,110,422)** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | (370,529,000) | 3,024,000 | (367,505,000) | (246,657,028) | 120,847,972 |
| Purchase of investment property | - | - | - | 102,691 | 102,691 |
| Purchases of heritage assets | - | - | - | (7,940) | (7,940) |
| **Net cash flows from investing activities** | **(370,529,000)** | **3,024,000** | **(367,505,000)** | **(246,562,277)** | **120,942,723** |
| **Cash flows from financing activities** | | | | | |
| Repayment of borrowings | - | - | - | (5,268,815) | (5,268,815) |
| Movement in consumer deposits | - | - | - | 400,797 | 400,797 |
| Finance lease payments | - | - | - | (21,975,733) | (21,975,733) |
| **Net cash flows from financing activities** | **-** | **-** | **-** | **(26,843,751)** | **(26,843,751)** |
| Net increase/(decrease) in cash and cash equivalents | 186,534,000 | 286,396,000 | 472,930,000 | (81,450) | (473,011,450) |
| Cash and cash equivalents at the beginning of the year | - | - | - | 127,785,784 | 127,785,784 |
| **Cash and cash equivalents at the end of the year** | **186,534,000** | **286,396,000** | **472,930,000** | **127,704,334** | **(345,225,666)** |

# Accounting policies

## 1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. Amounts are presented in South African Rand.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in the accounting policies are explained in the relevant policy.

### 1.1 Significant judgements and sources of estimation

The preparation of annual financial statements in conformity with standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates. Significant judgements and underlying assumptions are reviewed on a constant basis. Significant judgements include:

The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Trade receivables and other receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and other receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

#### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

#### Impairment testing

The recoverable amount of cash generating units and recoverable amount/ recoverable service amount of individual assets have been determined based on the higher of value in use calculations and fair values less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the fair value assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events and changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest value for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

### 1.1 Significant judgements and sources of estimation (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Assumptions were used in determining the provision for rehabilitation of landfill sites. Landfill areas are rehabilitated over years and assumptions were made that the areas may stay the same in size for a number of years. The increase in the restoration provision due to passage of time is recognised as borrowing cost in the statement of financial performance.

The estimates are discounted at a discount rate that reflects current market assessments of the time value of money.

#### Contingent liabilities

Contingencies disclosed in the current year required estimates and judgements. Additional disclosure of these contingent liabilities is included in the relevant note.

#### Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the medical obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical liability.

Other key assumptions for pension obligations are based on current market conditions.

#### Effective interest rate

The municipality used the prime interest rate plus 2% to discount future cash flows as at 30 June.

#### Allowance for credit losses

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

#### Self- insurance reserve

A reserve is held to settle future claims against the municipality. Funds are transferred based on external risk factor and premium determined.

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

Initial measurement

Investment property is initially recognised at cost.

# Accounting policies

### 1.2 Investment property (continued)

Subsequent measurement

Subsequently investment property is recognised at fair value and the fair value of investment property reflects market conditions at the reporting date.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Compensation from third parties for investment property that was impaired, lost or given up, is recognised in surplus or deficit when the compensation becomes receivable.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, or for administrative purposes and are expected to be used during more than one accounting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Initial measurement

Property, plant and equipment are initially measured at cost.

Assets acquired by grant or donation and newly identified assets

Property plant and equipment are measured at fair value at date of acquisition less accumulated depreciation where assets have been acquired by grant or donation and for assets that were newly identified through formal asset verification procedures for which cost records are not available or not reliable at date of acquisition. Fair value is determined with consideration of market value, other valuation techniques and Directive 7 issued by the Accounting Standards Board.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Subsequent measurement

After the initial recognition as assets, property plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Depreciation is calculated on the depreciable amount (cost less residual value), using the straight line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:

| **Item** | **Useful life** |
| --- | --- |

### 1.3 Property, plant and equipment (continued)

| | |
|---|---|
| Infrastructure | |
| • Roads and paving | 20 |
| • Pedestrian mall | 30 |
| • Electricity | 50-60 |
| • Water | 15-20 |
| • Sewerage | 15-20 |
| • Housing | 30 |
| Community assets | |
| • Buildings | 30 |
| • Recreational facilities | 20-30 |
| • Security | 5 |
| Other assets | |
| • Buildings | 30 |
| • Specialist vehicles | 10 |
| • Other vehicles | 5 |
| • Office equipment | 3-7 |
| • Furniture and fittings | 7-10 |
| • Watercraft | 15 |
| • Bins and containers | 5 |
| • Specialised plant and equipment | 10-15 |
| • Other items of plant and equipment | 2-5 |
| • Landfill sites | 30-55 |
| • Computer software | 3-5 |

An asset only has a residual value when the useful life of the asset (the period the asset is used or available for use) is shorter than the economic life of the asset (the period the asset is used or available for use by all users or owners of the asset). As the municipality plans to use the assets for the entire economic lives, the residual value is considered to be negligible or even zero.

Land is not depreciated as it is deemed to have an indefinite life.

The residual value, the useful life and depreciation method of each asset are reviewed at each reporting date when events or changes in circumstances suggest that the carrying amount may not be recoverable. If the expectations differ from previous estimate, the change is accounted for as a change in accounting estimate. Reviewing the useful life of an asset does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit, unless it is included in the carrying amount of another asset.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to surplus or deficit.

Derecognition

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

# Accounting policies

### 1.4 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Initial measurement

Intangible assets are initially recognised at cost.

If an intangible asset was acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Subsequent measurement

After the initial recognition intangible assets with finite useful lives are carried at cost less accumulated depreciation.

Computer software is capitalised to computer equipment where it forms an integral part of computer equipment.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

For intangible assets with a finite useful life, the residual value is always deemed to be zero unless:

(a) A third party has committed to purchase the asset at the end of its useful life;

(b) There is an active market for the asset and;

  (i) the residual value can be determined by reference to that market; and

  (ii) it is probable that such a market will exist at the end of the assets useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite, is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| **Item** | **Useful life** |
| --- | --- |
| Computer software, internally generated | 3-5 years |

### 1.4 Intangible assets (continued)

| | |
|---|---|
| Computer software, other | 3-5 years |
| Intangible assets under development | 3-5 years |

### 1.5 Heritage assets

Heritage assets, which are culturally significant, environmental, natural, scientific or technological resources and which are shown at cost, are not depreciated, owing to the uncertainty regarding their estimated useful lives. One of the key features of heritage assets is that they are held indefinitely for the purposes of preserving such assets for the benefit of present and future generations. Cost incurred to enhance or restore a heritage asset, to preserve its indefinite useful life are capitalised as part of the cost of the asset and are recognised in the carrying amount

The municipality has taken advantage of the transitional period of three years for the implementation of GRAP 103 with regards to measurement of the assets.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

### 1.6 Financial instruments

#### Classification

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, the municipality considers the substance of the contract and not just the legal form.

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Cash and cash equivalents | Financial asset at amortised cost |
| Trade and other receivables from exchange transactions | Financial asset at amortised cost |
| Consumer debtors | Financial asset at amortised cost |
| Long term receivables | Financial asset at amortised cost |
| Investments | Financial asset at amortised cost |

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Borrowings | Financial liability measured at amortised cost |
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |

#### Initial recognition and measurement

Financial assets and financial liabilities are initially recognised at fair value. Where an economic entity subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

Financial assets and financial liabilities are subsequently measured at amortised cost.

### 1.6 Financial instruments (continued)

**Impairment of financial assets**

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that financial assets are impaired can include:

- default or delinquency by a debtor;
- restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise, indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers in the municipality;
- economic conditions that correlate with defaults, or
- the disappearance of an active market for a security

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly or by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

The municipality derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the municipality is recognised as a separate asset or liability.

**Trade and other receivables**

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**Trade and other payables**

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at fair value.

# Accounting policies

### 1.6 Financial instruments (continued)

**Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

**Gains and losses**

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:
- for financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, through the amortisation process.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

**Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

**Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Inventories

Inventories include consumable stores, maintenance materials, spare parts for the plant and equipment, work in progress and land and property held for sale.

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

### 1.8 Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Unsold properties for the purpose of resale are accounted for as inventory. The fair value was determined by the appointed Municipal Valuer per the Valuation Roll that came into effect on 1 July 2012. Direct costs are accumulated for each separately identifiable development. Costs also include a portion of overhead cost, if the cost occur frequently and are separately identifiable.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### Measurement

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

#### Derecognition

Non-current assets and disposal groupies held for sale are derecognised upon disposal of the item or where no further economic benefits or service potential is expected to flow from the asset or disposal group. Gains / loss that result from the derecognition of non-current assets or disposal groups held for sale are recognised in surplus / deficit in the period of the derecognition.

### 1.10 Impairment of cash-generating assets

Assets that are subject to impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered.

An impairment loss is recognised if the recoverable amount of an asset is less than its carrying amount. The impairment loss is recognised as an expense in the consolidated statement of financial performance immediately. The recoverable amount of the asset is the higher of the asset fair value less cost of disposal and its value in use.

The fair value represents the amount obtainable from the sale in an arm's length transaction between knowledgeable, willing parties.

### 1.10 Impairment of cash-generating assets (continued)

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the assets belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss is recognised whenever the recoverable amount of a cash-generating unit is less than its carrying amount.

The impairment loss is allocated to reduce the carrying amount of the asset. The carrying amount of individual assets are not reduced below the higher of its value in use, zero or fair value less cost of disposal.

A previously recognised impairment loss related to assets is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised in prior periods.

After the recognition of an impairment loss, any depreciation charge for the asset is adjusted for future periods to allocate the assets' revised carrying amount on a systematic basis over its remaining useful life.

### 1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such Indication exists, the municipality estimates the recoverable service amount of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Employee benefits

**Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

### 1.12 Employee benefits (continued)

**Other post retirement obligations**

The municipality provides post-retirement health care benefits to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations using the projected unit credit method.

Long term employee benefits

The municipality provides long service awards. Awards are accrued over the period of employment. Independent qualified actuaries carry out valuations of these awards.

### 1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The discount rate is a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition, contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

### 1.14 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by:
- surveys of work performed;
- services performed to date as a percentage of total services to be performed; and
- the proportion that costs incurred to date bear to the total estimated costs of the transaction

Revenue arising from application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised in surplus or deficit using the effective interest rate method.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

# Accounting policies

### 1.15 Revenue from non-exchange transactions (continued)

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Revenue is measured at the fair value of the asset recorded less any liability rwcognised.

**Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

**Fines**

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses are recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

**Government grants**

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme, may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

# Accounting policies

### 1.15 Revenue from non-exchange transactions (continued)

**Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset, less any investment income on the temporary investment of those borrowings.
- weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on impairment of assets. In certain circumstances. The amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale is complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.17 Self-insurance reserve

A self-insurance reserve (SIR) covers claims that may occur, subject to external insurance policy terms and conditions. Premiums are charged to the respective services taking into account claims history, the insured value of property, plant and equipment and number of fleet vehicles.

Contributions by the departments to the self-insurance reserve are transferred from the contribution expenditure account of the department to the self-insurance reserve according to amounts budgeted for in the operating budget.

Claim payments received from external insurers are utilised in the calculation of gain or loss on the scrapping of damaged assets and are recorded in the statements of financial performance.

Claim payments received in respect of repairs, damages and/or losses to assets are receipted to the insurance cost centre income account and are then transferred from the insurance cost centre expenditure account to the insurance reserve where it is reflected as income.

Repair and replacement costs not fully covered by external insurance are paid from the insurance cost centre expenditure account that is then financed or reimbursed by a transfer from the self-insurance reserve to the insurance cost centre income account. The repair and replacement cost is reflected as expense in the self-insurance reserve.

# Accounting policies

### 1.18 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason of reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure, other than unauthorised expenditure, incurred in contravention of, or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by National Treasury or the relevant authority, is recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account is created if such a person is liable in law. Immediate steps are thereafter taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register is updated accordingly.

### 1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of Generally Recognised Accounting Practice (GRAP).

### 1.23 Budget information

The financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality provides information on whether resources were obtained and used in accordance with the legally adopted budget.

### 1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include:

Key management personnel, close members of the family of key management personnel and councillors

Key management personnel include all directors or members of the municipal council of the reporting entity where that council has jurisdiction. The council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the municipality.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Where transactions occurred between the municipality and any one or more related parties, and those transactions were not within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate; Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.25 Events after reporting date

Events after the reporting date are defined as favourable and unfavourable events that occur between the reporting date and the date the annual financial statements are authorised for issue.

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Two types of events can be identified

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date): and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date)

## Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

### 2. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2013 | 2012 |
|---|---|---|
| Cash on hand | 9,819 | 9,819 |
| Bank balances | 9,041,383 | 12,847,753 |
| Call accounts | 118,653,146 | 114,928,212 |
| | **127,704,348** | **127,785,784** |

The primary banking institution is ABSA bank, whilst the following secondary banking institutions are also applicable:

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances 30 June 2013 | Bank statement balances 30 June 2012 | Cash book balances 30 June 2013 | Cash book balances 30 June 2012 |
|---|---|---|---|---|
| ABSA Bank - Current account - 530-000-0087 | 10,653,931 | 13,797,520 | 7,601,679 | 11,626,726 |
| ABSA Bank - Salary account - 405-774-9059 | 946,352 | 451,310 | 946,352 | 451,310 |
| First National Bank - Traffic fines - 620-723-53396 | 82,786 | 115,607 | 82,786 | 115,607 |
| ABSA bank - Traffic fines - 407-683-0782 | 10,000 | 10,000 | 10,000 | 10,000 |
| Standard bank - Current - 420-502-084 | 183,337 | 88,153 | 183,337 | 88,153 |
| Nedbank - Current - 101-065-4888 | 75,806 | 555,957 | 75,806 | 555,957 |
| Standard Bank - Current account - 021-879-370 | 141,422 | - | 141,442 | - |
| **Total** | **12,093,634** | **15,018,547** | **9,041,402** | **12,847,753** |

**Call accounts**

| **Invested with** | 01 July 2012 | Invested | Interest capitalised | Withdrawn & charges | 30 June 2013 |
|---|---|---|---|---|---|
| ABSA-9122309604 | 145,160 | - | 32 | (145,192) | - |
| ABSA-9129312474 | 987 | - | - | (987) | - |
| ABSA-9086195975 | 176,369 | - | 65 | (176,434) | - |
| ABSA-4074200632 | 242,283 | - | 644 | (242,927) | - |
| ABSA-9208236189 | 434,791 | - | 12,209 | - | 447,000 |
| ABSA-4075657501 | 1,221,236 | - | 19,829 | (1,241,065) | - |
| ABSA-4077657402 | 487,972 | - | 2,276 | (490,248) | - |
| ABSA-4077657525 | 325,516 | - | 4,428 | (329,944) | - |
| ABSA-4077657478 | 44,821 | - | 60 | (44,881) | - |
| ABSA-4077657567 | 1,173 | - | - | (1,173) | - |
| STD Bank-028606817#21 | 285,254 | - | - | (285,254) | - |
| STD Bank-028606817#27 | 441,810 | - | - | (441,810) | - |
| STD Bank-028606817#35 | 311,217 | - | - | (311,217) | - |
| STD Bank-028606817#36 | 171,000 | - | - | (171,000) | - |
| STD Bank-028606817#42 | 102,064 | - | - | (102,064) | - |
| STD Bank-028606817#43 | 140,500 | - | - | (140,500) | - |
| STD Bank-028606817#47 | 2,514,952 | - | 77,047 | (2,591,999) | - |
| STD Bank-028606817#54#58 | 11,489,648 | - | 731,059 | - | 12,220,707 |
| STD Bank-028606817#55 | 471,151 | - | 8,030 | (479,181) | - |
| STD Bank-028606817#57 | 189,812 | - | 5,815 | (195,627) | - |
| STD Bank-028606817#59#61 | - | 105,000,000 | 1,842,414 | (106,842,414) | - |

## Notes to the annual financial statements

**2. Cash and cash equivalents (continued)**

| | | | | | |
|---|---|---|---|---|---|
| STD Bank-028606817#60#62 | - | 30,000,000 | - | - | 30,000,000 |
| Investec-1400192509500 | 41,788,552 | 57,304,000 | - | (86,137,385) | 12,955,167 |
| Investec-1400192905501 | 2,754 | - | 41 | (2,795) | - |
| Nedbank-03/7881044284#003 | 431,639 | - | - | (431,639) | - |
| Nedbank-03/7881044284#008 | 1,048,803 | - | - | (1,048,803) | - |
| Nedbank-03/7881044284#010 | 6,034,056 | - | - | - | 6,034,056 |
| Nedbank-03/7881044284#015 | 1,096,474 | - | - | (165,990) | 930,484 |
| Nedbank-03/7881044284#0020 | 731,951 | - | - | (731,951) | - |
| Nedbank-03/7881044284/0021 | 477,188 | - | 376 | (477,564) | - |
| Nedbank-03/7881044284/0022 | 11,258,838 | - | - | (3,062,225) | 8,196,613 |
| Nedbank-03/7881044284/0025 | 9,953,530 | - | - | (847,790) | 9,105,740 |
| Nedbank-03/7881044284/0026 | 4,247,456 | - | - | (2,027,357) | 2,220,099 |
| Nedbank-03/7881044284/0029 | 12,224,078 | - | - | (92,346) | 12,131,732 |
| Nedbank-03/7881044284/0033 | 3,577,980 | - | 96,544 | (3,191,953) | 482,571 |
| Nedbank-03/7881044284/0036 | 2,737,005 | - | 144,189 | (32,877) | 2,848,317 |
| Nedbank-03/7881044284/0037 | 65,194 | - | 9,797 | (74,991) | - |
| FNB-76367738315 | - | 1,800,000 | 67,899 | (1,867,899) | - |
| FNB-74367738977 | - | 1,250,000 | 43,489 | (547,056) | 746,433 |
| FNB-74367739701 | - | 10,500,000 | 345,079 | (10,500,000) | 345,079 |
| FNB-74374323399 | - | 1,000,000 | 31,554 | (691,074) | 340,480 |
| FNB-74374324149 | - | 1,800,000 | 66,760 | (1,866,760) | - |
| FNB-74377598238 | - | 1,615,000 | 51,779 | (711,380) | 955,399 |
| FNB-74380919140 | - | 260,000 | 8,361 | - | 268,361 |
| FNB-74380915750 | - | 2,111,000 | 65,573 | (2,176,573) | - |
| FNB-74383258313 | - | 5,009,000 | 144,743 | (5,153,743) | - |
| FNB-74386489808 | - | 56,282,000 | 356,422 | (55,346,215) | 1,292,207 |
| FNB-74386379801 | - | 3,369,060 | 94,659 | (3,369,061) | 94,658 |
| FNB-74388711621 | - | 3,600,000 | 79,233 | (3,242,314) | 436,919 |
| FNB-74397968742 | - | 4,840,000 | 65,181 | (4,180,589) | 724,592 |
| FNB-74397969584 | - | 8,730,000 | 45,426 | (8,730,000) | 45,426 |
| FNB-74398420113 | - | 86,100 | 1,497 | - | 87,597 |
| FNB-74386451401 | - | 74,685,000 | 482,915 | (60,255,977) | 14,911,938 |
| FNB-74408742994 | - | 770,000 | 6,573 | - | 776,573 |
| Sanlam-Shares | 55,000 | - | - | - | 55,000 |
| | **114,928,214** | **370,011,160** | **4,911,998** | **(371,198,224)** | **118,653,148** |

Unlimited cession dd 25/07/2008 of a absa call account no 9208236189, Held to partly secure(76%) of a R587k financial guarantee facility.

## Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|
| **3. Trade and other receivables from exchange transactions** | | |
| **Gross balances** | | |
| Electricity | 314,408,275 | 308,877,681 |
| Water | 1,095,817,119 | 869,655,140 |
| Sewerage | 426,915,916 | 402,926,902 |
| Refuse | 261,330,135 | 218,176,872 |
| | **2,098,471,445** | **1,799,636,595** |
| **Less: provision for debt impairment** | | |
| Electricity | (216,396,601) | (151,987,900) |
| Water | (971,136,312) | (785,690,077) |
| Sewerage | (385,753,515) | (366,153,668) |
| Refuse | (242,919,484) | (203,736,736) |
| | **(1,816,205,912)** | **(1,507,568,381)** |
| **Net balance** | | |
| Electricity | 98,011,674 | 156,889,781 |
| Water | 124,680,807 | 83,965,063 |
| Sewerage | 41,162,401 | 36,773,234 |
| Refuse | 18,410,651 | 14,440,136 |
| | **282,265,533** | **292,068,214** |
| **Water, electricity, sewerage and refuse** | | |
| Current (0 -30 days) | 167,038,157 | 129,285,907 |
| 31 - 60 days | 86,766,932 | 63,569,423 |
| 61 - 90 days | 74,030,959 | 47,540,965 |
| 91 days + | 1,770,635,397 | 1,559,240,300 |
| | **2,098,471,445** | **1,799,636,595** |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (1,507,568,381) | (1,134,937,290) |
| Contributions to allowance | (308,637,531) | (249,903,689) |
| Debt written off against provision | - | (122,727,402) |
| | **(1,816,205,912)** | **(1,507,568,381)** |

**Credit quality of consumer debtors**

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Although credit quality can be assessed, the municipality did not apply any method to evaluate the credit quality.

**Doubtful debt**

Government accounts - 0% of the total outstanding amount

Indigent accounts - 0% of outstanding amount

Sundry accounts - 100% between 91 and 180 days

Business/industrial - 100% between 91 and 180 days

All other accounts outstanding between 91 and 180 days, collectable based on the payment ratio for the past 12 months.

| | 2013 R | 2012 R |
|---|---|---|

### 3. Trade and other receivables from exchange transactions (continued)

**Bad debt**

Government accounts - 0% of the total outstanding amount

Indigent accounts - 100% of outstanding amount

Sundry accounts - 100% between 181 and more days

Business/industrial - 100% between 181 and more days

All other accounts with outstanding amounts between 181 and more, not collected

### 4. Trade and other receivables from non-exchange transactions

| | | |
|---|---|---|
| Property rates | 391,329,521 | 336,777,691 |
| Impairment property rates | (304,035,951) | (268,607,232) |
| Other receivables | 485,655,919 | 372,081,488 |
| Impairment - other receivables | (450,784,149) | (338,609,435) |
| Other debtors | 60,336,853 | 54,695,704 |
| Grant debtors | - | 622,000 |
| | **182,502,193** | **156,960,216** |

**Reconciliation of provision for impairment of trade and other receivables from non-exchange transactions**

| | | |
|---|---|---|
| Balance at beginning of the year | 607,216,667 | 542,991,248 |
| Contributions to allowance | 148,790,458 | 64,225,419 |
| Debt written off against provision | (1,187,025) | - |
| | **754,820,100** | **607,216,667** |

| | | |
|---|---|---|
| **Property rates** | | |
| Current (0-30 days) | 32,023,346 | 25,751,986 |
| 31-60 days | 12,982,710 | 9,338,630 |
| 61-90 days | 10,942,228 | 7,546,094 |
| 91-120 days | 335,381,237 | 286,967,584 |
| | **391,329,521** | **329,604,294** |

### 5. Inventories

| | | |
|---|---|---|
| Consumable stores | 23,486,988 | 20,084,971 |
| Water | 554,359 | 451,176 |
| | **24,041,347** | **20,536,147** |

### 6. Value added tax receivable

| | | |
|---|---|---|
| VAT | 71,544,737 | 70,478,041 |

Value added tax is payable on the receipts basis and is paid over to South African Revenue Services only once payment is received from debtors. The value added tax receivable relates to net input vat claimable from SARS.

## Notes to the annual financial statements

Figures in Rand

### 7. Property, plant and equipment

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Building property | 541,218,363 | (153,581,975) | 387,636,388 | 542,595,678 | (122,470,694) | 420,124,984 |
| Community assets | 644,363,974 | (72,258,666) | 572,105,308 | 634,222,430 | (56,010,298) | 578,212,132 |
| Infrastructure | 11,281,155,830 | (2,273,576,974) | 9,007,578,856 | 11,182,543,340 | (1,861,339,596) | 9,321,203,744 |
| Other assets | 344,616,506 | (224,112,474) | 120,504,032 | 392,228,310 | (214,047,084) | 178,181,226 |
| Capital work in progress | 374,113,084 | - | 374,113,084 | 224,592,987 | - | 224,592,987 |
| **Total** | **13,185,467,757** | **(2,723,530,089)** | **10,461,937,668** | **12,976,182,745** | **(2,253,867,672)** | **10,722,315,073** |

**Reconciliation of property, plant and equipment - 2013**

| | Opening balance | Additions | AUC transfers | Disposals / Derecognition | Fair value adjustments | Depreciation | Impairment | Total |
|---|---|---|---|---|---|---|---|---|
| Building property | 420,124,984 | - | - | (1,377,315) | - | (31,109,637) | (1,644) | 387,636,388 |
| Community assets | 578,212,132 | 7,458,207 | 2,704,676 | (21,339) | - | (16,141,368) | (107,000) | 572,105,308 |
| Infrastructure | 9,321,203,744 | 59,155,093 | 22,528,216 | (1,732,812) | 19,239,383 | (412,384,635) | (430,133) | 9,007,578,856 |
| Other assets | 178,181,226 | 5,290,739 | - | (17,862,343) | 6,804,497 | (51,010,650) | (899,437) | 120,504,032 |
| Capital work in progress | 224,592,987 | 174,752,989 | (25,232,892) | - | - | - | - | 374,113,084 |
| | **10,722,315,073** | **246,657,028** | **-** | **(20,993,809)** | **26,043,880** | **(510,646,290)** | **(1,438,214)** | **10,461,937,668** |

## Notes to the annual financial statements

Figures in Rand

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2012**

| | Opening balance | Additions | AUC transfers | Disposals / Derecognition | Donated and newly identified | Transfers | Depreciation | Impairment | Total |
|---|---|---|---|---|---|---|---|---|---|
| Land | 398,526,373 | 1,377,315 | - | (755,000) | - | (399,148,688) | - | - | - |
| Building property | 653,702,499 | 14,148,744 | 1,598,189 | - | 8,229 | (203,829,760) | (45,501,717) | (1,200) | 420,124,984 |
| Community assets | - | - | - | - | - | 578,791,489 | (579,357) | - | 578,212,132 |
| Infrastructure | 9,661,814,765 | 2,150 | 61,219,140 | 74,699 | - | 13,027,523 | (411,339,529) | (3,595,004) | 9,321,203,744 |
| Other assets | 231,371,817 | 5,183,646 | - | (2,271,480) | 2,368,301 | (36,801,520) | (20,014,094) | (1,655,444) | 178,181,226 |
| Capital work in progress | 117,433,251 | 170,108,643 | (62,948,907) | - | - | - | - | - | 224,592,987 |
| | **11,062,848,705** | **190,820,498** | **(131,578)** | **(2,951,781)** | **2,376,530** | **(47,960,956)** | **(477,434,697)** | **(5,251,648)** | **10,722,315,073** |

Due to the fact that the municipality is currently on the functional basis, land was reclassified as investment property during the 2012/13 financial year and therefore included in investment property

Change in estimates (Change in RUL)s

The ELM technical departments reviewed the RULs on existing assets as at 1 July 2012. During the review it was decided by ELM that the certain component's estimated useful life,remaining useful life and or residual value should be changed. The financial implication is that the annual depreciation will increase by R65,222,624.91 in the 2012/13 financial year.

Impairment of Land and Vanderbijlpark town substation

The town substation was burnt due to an electrical fault. The pitched trusses, IBR corrugated sheets, ceilings and electrical equipment was burnt.The wall was also not stable due to the severe fire.

ELM impaired certain land as portions of the land is being illegally occupied / encroached upon. These impairments were included in the 2013 FAR and are based on the percentage of land being illegally occupied

Donated and newly identified

During the year under review, moveable assets were newly identified and accounted for at fair value as a fair value adjustment.

| | 2013 | 2012 |
|---|---|---|
| | R | R |

### 8. Investment property

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Investment property | 1,105,804,584 | - | 1,105,804,584 | 976,217,00( | - | 976,217,000 |

**Reconciliation of investment property - 2013**

| | Opening balance | Disposals / Derecognition | Fair value adjustments | Total |
|---|---|---|---|---|
| Investment property | 976,217,000 | (2,445,000) | 132,032,584 | 1,105,804,584 |

**Reconciliation of investment property - 2012**

| | Opening balance | Disposals / Derecognition | Total |
|---|---|---|---|
| Investment property | 976,667,000 | (450,000) | 976,217,000 |

Rental received from investment property is included in the disclosure of rental of facilities and equipment in note 18 of the financial statements.

Rental income from investment property amounts to R11 190 256

Direct operating expense from rental operating property amounts to R56 710.16

Direct operating expenses from non rental operating property amounts to R0

**Details of valuation**

The effective date of the revaluations was 30 June 2012. Revaluations were performed by an independent valuer, Neil de Klerk (Pty) Ltd. Neil de Klerk (Pty) Ltd are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Rental received from investment property is included in the disclosure of rental of facilities and equipment in note 18 of the financial statements

Fair value adjustments

Investment property is measured using the fair value model. An analysis of property sale prices for all transactions where most of the municipality's investment properties are held was performed. This analysis indicates that a 14.6% fair value is necessary for investment property as at 30 June 2013.

All properties were reviewed by the department. Certain land portions are being illegally occupied / encroached upon. GRAP indicates that impairment adjustment are not recorded for investment property subsequently measured on the fair value model. Therefore the decision was taken to adjust the fair value to reflect the encroachment.

The total fair value adjustment for 2012/13 is R 132,032,622.

# Notes to the annual financial statements

Figures in Rand

## 9. Intangible assets

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 27,786,274 | (20,850,876) | 6,935,398 | 28,060,261 | (17,799,282) | 10,260,979 |
| Servitudes | 13,849,516 | - | 13,849,516 | 13,849,516 | - | 13,849,516 |
| **Total** | **41,635,790** | **(20,850,876)** | **20,784,914** | **41,909,777** | **(17,799,282)** | **24,110,495** |

**Reconciliation of intangible assets - 2013**

| | Opening balance | Disposals/Derecognition | Amortisation | Impairment | Total |
|---|---|---|---|---|---|
| Computer software | 10,260,979 | (70,042) | (3,209,211) | (46,328) | 6,935,398 |
| Servitudes | 13,849,516 | - | - | - | 13,849,516 |
| | **24,110,495** | **(70,042)** | **(3,209,211)** | **(46,328)** | **20,784,914** |

**Reconciliation of intangible assets - 2012**

| | Opening balance | AUC Transfers | Disposals/Derecognition | Transfers | Amortisation | Total |
|---|---|---|---|---|---|---|
| Computer software | 12,833,149 | 131,578 | (1,338,852) | 2,478,207 | (3,843,103) | 10,260,979 |
| Servitudes | - | - | - | 13,849,516 | - | 13,849,516 |
| | **12,833,149** | **131,578** | **(1,338,852)** | **16,327,723** | **(3,843,103)** | **24,110,495** |

# Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

## 10. Heritage assets

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets | 348,753 | (2,236) | 346,517 | 460,317 | (1,037) | 459,280 |

**Reconciliation of heritage assets 2013**

| | Opening balance | Additions | Disposals/Derecognition | Fair value adjustments | Impairment | Total |
|---|---|---|---|---|---|---|
| Heritage assets | 459,280 | 7,940 | (121,700) | 2,197 | (1,200) | 346,517 |

**Reconciliation of heritage assets 2012**

| | Opening balance | Fair value adjustments | Impairment | Total |
|---|---|---|---|---|
| Heritage asset | 437,380 | 22,500 | (600) | 459,280 |

## 11. Non-current assets held for sale

| **Non-current assets held for sale** | | |
|---|---|---|
| Other assets | 16,745 | 16,745 |

Library books not in a fair condition to be lend out.

Now held for sale awaiting a decision from management whether to donate or sell.

## 12. Trade and other payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 446,764,695 | 452,177,598 |
| Payments received in advance | 76,736,952 | 77,809,761 |
| Retentions | 28,015,150 | 31,166,139 |
| Outstanding cheques | 3,624,742 | 9,023,119 |
| Accrued interest | 3,030,550 | 2,263,715 |
| Accrual for annual leave | 46,712,772 | 42,995,213 |
| Accrual for 13th cheque | 33,875,359 | 31,159,131 |
| Year-end salary creditors | 26,412,416 | 23,092,777 |
| Unclaimed wages | 843,342 | 730,547 |
| Other payables | 1,676,119 | 1,969,678 |
| | **667,692,097** | **672,387,678** |

## 13. Consumer deposits

| | | |
|---|---|---|
| Electricity and water | 33,938,710 | 33,537,913 |

The amounts reflected represent a cost value, as it is impracticable to determine fair value. Management however believes that the cost value approximates the fair value. Bank guarantees to the value of R5 912 205 form part of the amount disclosed as R33 938 710.

| | 2013 R | 2012 R |
|---|---|---|

### 14. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| | 2013 R | 2012 R |
|---|---|---|
| Department of water affairs grant | 930,484 | 930,484 |
| HIV/AIDS grant | 288,140 | - |
| Library grant | 3,107,398 | 2,795,627 |
| Department of agriculture conservation and the environment grant | - | 1,000,467 |
| Regional sewer scheme | 1,134,668 | 1,134,668 |
| Bontle ke botho | 1,529,639 | 746,529 |
| National electrification grant | 10,073,886 | - |
| Projects funded ex Sedibeng district municipality | 2,704,127 | 2,704,127 |
| Sedibeng regional sewer scheme | 9,110,125 | 9,110,125 |
| Sport and recreation | 560,132 | 560,132 |
| Municipal systems improvement grant | 3,294 | - |
| Electricity demand grant | 1,517,299 | 2,087,140 |
| Debtors book project | 219,952 | 219,952 |
| Municipal systems improvement grant Sedibeng | 50,000 | 50,000 |
| | **31,229,144** | **21,339,251** |

Refer to note 23 for detailed movements on grants

### 15. Borrowings

| | 2013 R | 2012 R |
|---|---|---|
| **At amortised cost** | | |
| Borrowings | 26,921,161 | 32,189,976 |
| **Non-current liabilities** | | |
| At amortised cost | 23,485,389 | 26,920,992 |
| **Current liabilities** | | |
| At amortised cost | 3,435,772 | 5,268,984 |

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 16. Finance lease liability

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 2,235,990 | 23,161,407 |
| - in second to fifth year inclusive | - | 1,050,316 |
| | 2,235,990 | 24,211,723 |
| less: future finance charges | - | (1,050,316) |
| **Present value of minimum lease payments** | **2,235,990** | **23,161,407** |

The average lease term was 3-5 years and the average effective borrowing rate was 8.5%. Interest rates are either fixed or variable at contract date. All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulation in the lease agreements.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. The municipality did not default on any of the interest or capital repayments of the finance leases. No terms or condition of finance leases were re-negotiated. All risks and rewards of ownership remain with the lessor of the lease and there is no option to purchase the leased asset. There is no restriction imposed on the lease agreement.

| | | |
|---|---|---|
| **Operating leases - Municipality as lessor - property** | | |
| within one year | 1,159,323 | 1,203,833 |
| in second to fifth year inclusive | 2,141,411 | 3,674,195 |
| | **3,300,734** | **4,878,028** |

| | | |
|---|---|---|
| **Operating leases - Municipality as lessee - fleet** | | |
| within one year | 5,602 | 2,382,639 |
| in second to fifth year inclusive | - | 147,547 |
| | **5,602** | **2,530,186** |

| | | |
|---|---|---|
| **Operating leases - Municipality as lessee - office equipment** | | |
| within one year | 1,370,143 | 831,390 |
| in second to fifth year inclusive | 1,211,152 | 1,108,519 |
| | **2,581,295** | **1,939,909** |

Operating leases - Municipality as lessor

These leases are in respect of municipal property that is leased to third parties. These leases are payable by lessees, either monthly or annually. Leases escalate at annual fixed rates that vary between 0% and 8.5%.

No contingent rent was recognised as revenue because rental increases are escalated at a fixed percentage. Increases are not based on indices that result in a fluctuating interest rate.

Operating leases - Municipality as lessee - Fleet

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Operating leases - Municipality as lessee - Office Equipment

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

## Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

### 17. Provisions

**Reconciliation of provisions - 2013**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 114,185,811 | 6,851,148 | 121,036,959 |

**Reconciliation of provisions - 2012**

| | Opening Balance | Additions | Total |
|---|---|---|---|
| Environmental rehabilitation | 107,773,638 | 6,412,173 | 114,185,811 |

**Environmental rehabilitation provision**

With regards to the Provision for Landfill sites: It is stated in the Department of Water Affairs "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, top soiling, vegetating, and drainage maintenance and leachate management."

Rehabilitation costs in respect of geo-hydrological monitoring are anticipated to be a recurring cost for the next:

20 years – Waldrift landfill site

6 years – Boitsepi landfill site

30 years – Palm Springs landfill site

The valuation of the land on which the landfill sites is situated was determined by Messrs Neil de Klerk (Pty) Ltd. (NdK). NdK appointed Messrs Hill & associates (H&A) to determine the value of the land as the land is encumbered by waste and this requires an Environmental Engineers input.

Waldrift

The current disposal rate is approximately 4 000 tons per month (153 tons per day) and the expected site life is 20 years.

A GMB- landfill site, in terms of the Minimum Requirements (MR) for waste disposal by landfill, 1998, will require the following for rehabilitation:

1. The waste must be shaped to allow for water to runoff with no ponding allowed on the site;
2. The waste must be a capping with a layer of clay a minimum of 300mm thick;
3. The clay must be a capping with a layer of topsoil a minimum of 200mm thick;
4. The top soiled area must be grassed to minimize the effects of erosion either by wind or water;
5. A Landfill Gas mitigation plan, i.e. gas extraction of release, is required.

The soils to be used for the capping will be obtained from local stockpile sources within close proximity to the site. It is assumed that the work will be done by external parties, i.e. Civil Engineering Contractor.

The cost estimate to close the landfill site in 2013 is R7 233 987 excl. VAT which will need to be expanded using the CPI for the area to the year of final rehabilitation

Boitsepi

The current disposal rate is approximately 25 000 tons per month (961 tons per day) and the expected site life is 6 years.
A GLB+ landfill site, in terms of the Minimum Requirements (MR) for waste disposal by landfill, 1998, will require the following for rehabilitation:

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 17. Provisions (continued)

1. The waste must be shaped to allow for water to runoff with no ponding allowed on the site;
2. The shaped waste must be a capping with a layer of 19mm stone a minimum of 150mm thick for gas drainage;
3. The shaped drainage layer must be a covered with a layer of A4 bidim;
4. The bidim must be a capping with a layer of clay a minimum of 450mm thick;
5. The clay must be a capping with a layer of topsoil a minimum of 200mm thick;
6. The top soiled area must be grassed to minimize the effects of erosion either by wind or water;
7. A Landfill Gas mitigation plan, i.e. gas extraction of release, is required.

The soils to be used for the capping must be imported from commercial sources within close proximity to the site. It is assumed that the work will be done by external parties, i.e. Civil Engineering Contractor

The cost estimate to close the landfill site in 2013 is R69 709 199 excl. VAT which will need to be expanded using the CPI for the area to the year of final rehabilitation

Palm Springs

The current disposal rate is approximately 5 000 tons per month (192 tons per day) and the expected site life is 30 years.
A GMB- landfill site, in terms of the Minimum Requirements (MR) for waste disposal by landfill, 1998, will require the following for rehabilitation:

1. The waste must be shaped to allow for water to runoff with no ponding allowed on the site;
2. The waste must be a capping with a layer of clay a minimum of 300mm thick;
3. The clay must be a capping with a layer of topsoil a minimum of 200mm thick;
4. The top soiled area must be grassed to minimize the effects of erosion either by wind or water;
5. A Landfill Gas mitigation plan, i.e. gas extraction of release, is required.

The soils to be used for the capping must be imported from commercial sources within close proximity to the site. It is assumed that the work will be done by external parties, i.e. Civil Engineering Contractor

The cost estimate to close the landfill site in 2013 is R44 093 772 excl. VAT which will need to be expanded using the CPI for the area to the year of final rehabilitation.

### 18. Service charges

| | 2013 | 2012 |
|---|---|---|
| Sewerage and sanitation charges | 179,501,525 | 197,320,365 |
| Sale of electricity | 1,615,708,094 | 1,415,814,929 |
| Sale of water | 667,181,773 | 492,337,050 |
| Refuse removal | 128,996,643 | 96,346,276 |
| | **2,591,388,035** | **2,201,818,620** |

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 19. Rental of facilities and equipment

| | 2013 R | 2012 R |
|---|---|---|
| **Premises** | | |
| Rental of facilities | 11,190,256 | 11,437,026 |
| **Facilities and equipment** | | |
| Rental of equipment | 5,053 | 2,115 |
| | **11,195,309** | **11,439,141** |

### 20. Finance income

| | 2013 R | 2012 R |
|---|---|---|
| **Dividend revenue** | | |
| Other financial asset | 3,025 | 9,532 |
| **Finance income** | | |
| Interest on arrears | 24,695,367 | 21,234,644 |
| Bank | 10,583,615 | 10,105,529 |
| | **35,278,982** | **31,340,173** |
| | **35,282,007** | **31,349,705** |

### 21. Other income

| | 2013 R | 2012 R |
|---|---|---|
| Access to information | 403,081 | 472,546 |
| Capital contribution | 7,161,473 | 7,102,349 |
| Dishonoured cheques | 62,760 | 53,618 |
| Refunds | 3,069,155 | 3,148,822 |
| Sundries/unallocated income | 17,263,872 | 12,507,201 |
| Surplus cash | 7,271 | 10,938 |
| Warning services | 2,002,310 | 2,442,613 |
| Advertising | 131,071 | 171,377 |
| Informal trading revenue | 345,492 | 263,577 |
| Alienation of stand | 40,594 | 79,375 |
| Compensation for servitude | 61,047 | - |
| Reconnection fees | 8,671,838 | 17,576,120 |
| Planning fees | 96,643 | 88,850 |
| Sale of tender documents | 900,200 | 1,786,100 |
| Zoning certificates | 53,778 | 68,906 |
| Activity room/auditorium | 30,761 | 22,160 |
| Building plans | 1,867,452 | 1,036,915 |
| Cemeteries | 5,494,209 | 4,984,366 |
| Entrance fees | 107 | 91 |
| General service fees | 6,350,529 | 6,710,735 |
| Fire rescue services | 908,669 | 1,920,186 |
| Flammable liquid | 79,357 | 72,371 |
| Refuse dumping landfill site | 9,505,205 | 13,497,438 |
| Lost and damaged library material | 4,974 | 4,006 |
| Industrial effluent | 848,367 | 924,925 |
| | **65,360,215** | **74,945,585** |

## Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

### 22. Property rates

**Rates**

| | | |
|---|---|---|
| Rates levied | 410,973,552 | 351,966,028 |

**Valuations**

| | | |
|---|---|---|
| Residential | 51,011,173,000 | 44,017,204,000 |
| Business | 7,852,592,020 | 6,698,894,000 |
| Industrial | 4,166,515,000 | 3,921,071,001 |
| State owned properties | 1,424,691,000 | 1,315,450,000 |
| Municipal | 771,274,000 | 254,257,000 |
| Agricultural | 1,155,720,000 | 1,111,852,000 |
| Other | 953,258,000 | 406,156,000 |
| | **67,335,223,020** | **57,724,884,001** |

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 23. Government grants and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 597,142,000 | 539,842,000 |
| Department of water affairs | - | 165,990 |
| HIV/AIDS grant | 141,860 | 561,506 |
| Finance management grant | 1,250,000 | 8,750,000 |
| Health grant | - | 68,239 |
| Restructuring grant | - | 2,080,048 |
| Regional sewer scheme | - | 11,747,242 |
| Bontle ke botho | - | 930 |
| Department of agriculture conservation and the environment grant | 2,100,467 | 228,160 |
| Sport and recreation | - | 520,342 |
| Municipal systems improvement grant | 996,706 | 800,000 |
| Social development grant | - | 14,102,498 |
| Social grant (evictions) | - | 26,330,339 |
| Expanded public works programme grant | 5,216,000 | 4,961,258 |
| Infrastructure skills development grant | 19,230,000 | - |
| Provincial health subsidy | 43,413,632 | 42,711,952 |
| | 669,490,665 | 652,870,504 |
| **Capital grants** | | |
| Library grant | 1,418,229 | 7,206,589 |
| National electrification programme | 16,926,114 | 9,890,400 |
| Restructuring grant | - | 12,396,780 |
| Electricity demand site management | 569,841 | 3,912,860 |
| Asset management | - | 1,800,000 |
| Kwa-Masiza | - | 15,500,000 |
| Municipal infrastructure grant | 154,041,000 | 144,227,937 |
| | 172,955,184 | 194,934,566 |
| | **842,445,849** | **847,805,070** |

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

**Department of water affairs and forestry**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 930,484 | 1,096,474 |
| Conditions met - transferred to revenue | - | (165,990) |
| | **930,484** | **930,484** |

Conditions still to be met - remain liabilities (see note 14).

This grant is used for water demands management.

**Municipal infrastructure grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 17,242,937 |
| Current-year receipts | 154,041,000 | 126,985,000 |
| Conditions met - transferred to revenue | (154,041,000) | (144,227,937) |
| | - | - |

This grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas. No funds have been withheld by the grantor.

## Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

### 23. Government grants and subsidies (continued)

**Restructuring grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 18,249,475 |
| Withheld by treasury during the financial year | - | (18,249,475) |
| | - | - |

No grant was received for the 2012/13 financial year.

This grant is used for meeting particular financial and institutional improvement targets, targeting mainly service delivery and local economic development.

**National electrification programme**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 673,525 |
| Current-year receipts | 27,000,000 | 9,890,400 |
| Conditions met - transferred to revenue | (16,926,114) | (9,890,400) |
| Withheld by treasury during the financial year | - | (673,525) |
| | **10,073,886** | - |

Conditions still to be met - remain liabilities (see note 14).

To implement the integrated national electrification programme (INEP) by providing capital subsidies to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure in order to improve quality of supply.

**Asset management project**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | - | 1,800,000 |
| Conditions met - transferred to revenue | - | (1,800,000) |
| | - | - |

No grant was received for the 2012/13 financial year.

**Kwa Masiza grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | - | 15,500,000 |
| Conditions met - transferred to revenue | - | (15,500,000) |
| | - | - |

No grant was received for the 2012/13 financial year.

**Electricity demand site management grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 2,087,140 | - |
| Current-year receipts | - | 6,000,000 |
| Conditions met - transferred to revenue | (569,841) | (3,912,860) |
| | **1,517,299** | **2,087,140** |

Conditions still to be met - remain liabilities (see note 14).

To provide subsidies to municipalities to implement electricity demand site management (EDSM) in municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

# Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

### 23. Government grants and subsidies (continued)

**Library grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 2,795,627 | 2,802,216 |
| Current-year receipts | 1,730,000 | 7,200,000 |
| Conditions met - transferred to revenue | (1,418,229) | (7,206,589) |
| | **3,107,398** | **2,795,627** |

Conditions still to be met - remain liabilities (see note 14).

The purpose of the grant is to financially support municipal library services in the administration of libraries, in order to render efficient, effective and economic library and information services to communities.

**HIV/AIDS grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 37,346 |
| Current-year receipts | 430,000 | 524,160 |
| Conditions met - transferred to revenue | (141,860) | (561,506) |
| | **288,140** | **-** |

Conditions still to be met - remain liabilities (see note 14).

This grant is used for various purposes depending on the business plan submitted.

**Financial management grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 750,000 |
| Current-year receipts | 1,250,000 | 8,750,000 |
| Conditions met - transferred to revenue | (1,250,000) | (8,750,000) |
| Withheld by treasury during the financial year | - | (750,000) |
| | **-** | **-** |

This grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the MFMA.

**Health grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 68,239 |
| Conditions met - transferred to revenue | - | (68,239) |
| | **-** | **-** |

No grant was received for the 2012/13 financial year.

This grant is used to improve primary health care facilities in the ELM area.

**Regional sewer scheme**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 1,134,668 | (1,862,813) |
| Current-year receipts | - | 26,298,099 |
| Conditions met - transferred to revenue | - | (11,747,242) |
| Re-allocation of expenditure to correct grant | - | (11,553,376) |
| | **1,134,668** | **1,134,668** |

Conditions still to be met - remain liabilities (see note 14).

| | 2013 R | 2012 R |
|---|---|---|

### 23. Government grants and subsidies (continued)

This grant supplements the financing of the social component of regional bulk water and sanitation. It targets projects that cut across the boundaries of other municipalities. The grant supplements regional bulk collection and waste water treatment works. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects.

**Bontle ke botho**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 746,529 | 743,368 |
| Current-year receipts | 783,110 | 4,090 |
| Conditions met - transferred to revenue | - | (929) |
| | **1,529,639** | **746,529** |

Conditions still to be met - remain liabilities (see note 14).

The MEC agriculture conservation and environment, initiated a clean and green programme based on the Johannesburg plan of implementation, whereby the municipalities, wards and schools are encouraged to keep the nearest places clean. This is done through a campaign named Bontle ke botho which rewards the best municipality.

**Social development grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 5,102,498 |
| Current-year receipts | - | 9,000,000 |
| Conditions met - transferred to revenue | - | (14,102,498) |
| | - | - |

No grant was received for the 2012/13 financial year.

**Municipal systems improvement grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | - | 500,000 |
| Current-year receipts | 1,000,000 | 800,000 |
| Conditions met - transferred to revenue | (996,706) | (800,000) |
| Withheld by treasury during the financial year | - | (500,000) |
| | **3,294** | - |

Conditions still to be met - remain liabilities (see note 14).

To assist municipalities to build in-house capacity to perform their functions and stabilise institutional governance systems as required in the Municipal Systems Act (MSA), and other related legislation policies and the local government turnaround strategy - the focus being MPRA, effective implementation of ward committees and improvement to fixed asset registers.

**Department of agriculture conservation and the environment**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 1,000,467 | 728,627 |
| Current-year receipts | 1,100,000 | 500,000 |
| Conditions met - transferred to revenue | (2,100,467) | (228,160) |
| | - | **1,000,467** |

Funds used for implementation of Emfuleni alien vegetation eradication project.

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 23. Government grants and subsidies (continued)

**Expanded public works programme**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 1,290,258 |
| Current-year receipts | 5,216,000 | 3,049,000 |
| Debtor year end | - | 2,395,416 |
| Conditions met - transferred to revenue | (5,216,000) | (6,734,674) |
| | - | - |

To provide expanded public works programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

**Security grant (evictions)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | - | 26,330,339 |
| Conditions met - transferred to revenue | - | (26,330,339) |
| | - | - |

No grant was received for the 2012/13 financial year.

**Health and environment subsidies**

| | | |
|---|---|---|
| Current-year receipts | 43,413,633 | 42,711,952 |
| Conditions met - transferred to revenue | (43,413,633) | (42,711,952) |
| | - | - |

**Sports and recreation grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 560,132 | 1,118,854 |
| Current-year receipts | - | (38,380) |
| Conditions met - transferred to revenue | - | (520,342) |
| | **560,132** | **560,132** |

Conditions still to be met - remain liabilities (see note 14).

**Infrastructure skills development grant**

| | | |
|---|---|---|
| Current-year receipts | 19,230,000 | - |
| Conditions met - transferred to revenue | (19,230,000) | - |
| | - | - |

To strengthen the capacity of local government to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills available and to facilitate lifelong learning and the transfer of knowledge to the municipalities. To sustain infrastructure related capacity in local government.

**Projects funded ex Sedibeng district municipality**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 2,704,127 | 2,704,127 |

Conditions still to be met - remain liabilities (see note 14).

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 23. Government grants and subsidies (continued)

Funds are used for upgrading of cemeteries. No funds have been withheld by the grantor.

**Municipal systems infrastructure grant (Sedibeng)**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 50,000 | 50,000 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| | **50,000** | **50,000** |

Conditions still to be met - remain liabilities (see note 14).

Funds meant to fund an LED project. No funds have been withheld by the grantor.

**Sedibeng regional sewer scheme**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 9,110,125 | 9,953,530 |
| Conditions met - transferred to revenue | - | (12,396,780) |
| Re-allocation of expenditure to regional sewer scheme (correction) | - | 11,553,375 |
| | **9,110,125** | **9,110,125** |

Conditions still to be met - remain liabilities (see note 14).

This grant supplements the financing of the social component of regional bulk water and sanitation. It targets projects that cut across the boundaries of several municipalities. The grant supplements regional bulk collection and wastewater treatment works. It may also be used to appoint service providers to carry out feasibility studies, related planning or management studies for infrastructure projects.

**Debtors book restructuring grant**

| | 2013 R | 2012 R |
|---|---|---|
| Balance unspent at beginning of year | 219,952 | - |
| Current-year receipts | - | 2,300,000 |
| Conditions met - transferred to revenue | - | (2,080,048) |
| | **219,952** | **219,952** |

Conditions still to be met - remain liabilities (see note 14).

To provide financial assistance to the municipality for the implementation of the Gauteng revenue enhancement and debtor management project (Municipal debtors book project). Structuring of the debtors book and preparatory work.

### 24. Traffic fines

| | 2013 R | 2012 R |
|---|---|---|
| Traffic fines income | 34,648,500 | 36,769,542 |

Included in the traffic fines income, are fines issued but not yet received at year end totalling R11 211 170 (2012: R5 825 682)

# Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

## 25. Employee related costs

| | | |
|---|---|---|
| Basic salaries | 445,972,870 | 405,094,728 |
| 13th cheque | 33,299,108 | 30,421,304 |
| Medical aid - company contributions | 40,414,324 | 35,658,996 |
| Unemployment insurance fund (UIF) | 3,843,921 | 3,363,624 |
| Leave pay provision charge | 6,994,776 | 7,142,675 |
| Provision for leave and 13th cheque | 6,433,788 | 6,911,072 |
| Provision for long service awards and medical aid | 11,366,174 | 45,696,874 |
| Pension fund contribution | 86,912,455 | 80,219,226 |
| Overtime payments | 46,016,353 | 45,698,330 |
| Car allowance | 35,583,284 | 30,241,079 |
| Housing benefits and allowances | 2,398,923 | 2,603,261 |
| Other allowance | 10,539,738 | 7,675,396 |
| Group insurance | 24,546,949 | 21,468,024 |
| | **754,322,663** | **722,194,589** |

### Remuneration of municipal manager

| | | |
|---|---|---|
| Annual Remuneration | 1,590,163 | 1,218,717 |
| Travel, motor car, accommodation, subsistence and other allowances | 427,736 | 530,736 |
| | **2,017,899** | **1,749,453** |

### Chief Financial Officer

| | | |
|---|---|---|
| Annual remuneration (2013: 0 months, 2012: 08 months) | - | 723,427 |
| Travel, motor car, accommodation, subsistence and other allowances | - | 78,344 |
| | **-** | **801,771** |

The position of CFO was vacant for the 2012/2013 financial year.

### Corporate Services (DMM)

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 08 months) | 1,035,833 | 551,590 |
| Travel, motor car, accommodation, subsistence and other allowances | 126,500 | 245,967 |
| | **1,162,333** | **797,557** |

### Basic Services (DMM)

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 12 months) | 1,447,000 | 1,250,000 |
| Travel, motor car, accommodation, subsistence and other allowances | 18,000 | 17,400 |
| | **1,465,000** | **1,267,400** |

### Chief Audit Executive

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 12 months) | 982,868 | 716,800 |
| Travel, motor car, accommodation, subsistence and other allowances | 196,200 | 304,073 |
| Performance Bonuses | 63,370 | - |
| | **1,242,438** | **1,020,873** |

### Economic Development and Planning (DMM)

| | | |
|---|---|---|
| Annual remuneration (2012: 12 months, 2011: 12 months) | 1,250,000 | 918,212 |
| Travel, motor car, accommodation, subsistence and other allowances | 18,000 | 405,227 |

# Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 25. Employee related costs (continued)

| | | |
|---|---|---|
| | **1,268,000** | **1,323,439** |

**Public Safety (DMM)**

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 08 months) | 1,140,000 | 583,590 |
| Travel, motor car, accommodation, subsistence and other allowances | 128,000 | 236,631 |
| | **1,268,000** | **820,221** |

**Infrastructure Planning and Asset Management (DMM)**

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 12 months) | 1,221,120 | 1,032,000 |
| Travel, motor car, accommodation, subsistence and other allowances | 186,000 | 185,400 |
| | **1,407,120** | **1,217,400** |

**Chief Operating Officer**

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 12 months) | 1,082,529 | 883,000 |
| Travel, motor car, accommodation, subsistence and other allowances | 138,000 | 137,400 |
| | **1,220,529** | **1,020,400** |

**Chief Risk Officer**

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 08 months) | 655,948 | 397,600 |
| Travel, motor car, accommodation, subsistence and other allowances | 264,300 | 167,200 |
| | **920,248** | **564,800** |

**Chief Information Officer**

| | | |
|---|---|---|
| Annual remuneration (2013: 12 months, 2012: 01 months) | 762,000 | 82,500 |
| Travel, motor car, accommodation, subsistence and other allowances | 245,900 | - |
| | **1,007,900** | **82,500** |

**Head of Revenue**

| | | |
|---|---|---|
| Annual Remuneration (2013: 11 months, 2012: 0 months) | 1,145,833 | - |
| Travel, motor car, accommodation, subsistence and other allowances | 16,500 | - |
| | **1,162,333** | **-** |

The position for Head of Revenue was vacant for one month during the 2012/13 financial year.

### 26. Remuneration of councillors

| | | |
|---|---|---|
| Mayoral Committee members | 6,711,727 | 6,356,651 |
| Councillors | 19,949,495 | 18,776,499 |
| | **26,661,222** | **25,133,150** |

**In-kind benefits**

The office of Executive Mayor, Speaker and Mayoral Committee members are full time positions. Each is provided with an office and secretariat support at the cost of the municipality.

The Mayor makes use of a municipal owned vehicle for official duties.

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 26. Remuneration of councillors (continued)

**Mayor**

| | | |
|---|---|---|
| Annual Remuneration (2013: 12 months, 2012: 12 months) | 512,042 | 485,348 |
| Travel, motor car, accommodation, subsistence and other allowances | 236,111 | 223,802 |
| | **748,153** | **709,150** |

**Speaker**

| | | |
|---|---|---|
| Annual Remuneration (2013: 12 months, 2012: 12 months) | 409,634 | 388,278 |
| Travel, motor car, accommodation, subsistence and other allowances | 176,898 | 167,680 |
| | **586,532** | **555,958** |

### 27. Finance costs

| | | |
|---|---|---|
| Interest paid | 15,462,189 | 2,869,378 |
| Borrowings | 16,963,133 | 19,106,887 |
| | **32,425,322** | **21,976,265** |

### 28. Bulk purchases

| | | |
|---|---|---|
| Electricity | 1,332,969,506 | 1,162,498,725 |
| Water | 470,699,838 | 411,833,976 |
| | **1,803,669,344** | **1,574,332,701** |

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|
| **29. General expenses** | | |
| Advertising | 2,872,351 | 4,073,727 |
| Audit fees | 5,513,554 | 5,643,727 |
| Bank charges | 1,914,914 | 1,440,744 |
| Commission paid | 9,356,759 | 5,751,200 |
| Consulting and professional fees | 6,562,097 | 3,307,445 |
| Consumables | 3,616,646 | 4,423,379 |
| Insurance | 22,990,795 | 22,259,564 |
| Conferences and seminars | 3,685,967 | 3,504,248 |
| Lease rentals on operating lease | 43,519,452 | 34,141,876 |
| Magazines, books and periodicals | 360,736 | 795,964 |
| Medical expenses | 256,771 | 136,366 |
| Recoverable works | 36,783 | 18,277 |
| Relocation cost | 17,050 | 34,100 |
| Postage and courier | 5,756,071 | 5,219,158 |
| Printing and stationery | 6,108,322 | 5,876,022 |
| Staff expenditure | 10,958,527 | 11,092,789 |
| Royalties and license fees | 2,541,415 | 1,874,483 |
| Security (Guarding of municipal property) | 32,221,419 | 36,684,783 |
| Software expenses | 1,958,201 | 2,952,554 |
| Subscriptions and membership fees | 1,261,515 | 348,718 |
| Telephone and fax | 6,980,152 | 4,932,871 |
| Training | 22,302,294 | 9,367,668 |
| Electricity | 3,046,387 | 4,655,571 |
| Uniforms | 4,973,763 | 2,743,902 |
| Special programmes | 33,285,373 | 27,694,139 |
| Indigent support | 203,134,601 | 160,619,909 |
| Valuation roll expense | 39,429 | 119,248 |
| Public expenditure | 449,228 | 337,376 |
| Chemicals | 69,350 | - |
| Other expenses | 73,185,395 | 44,109,301 |
| | **508,975,317** | **404,159,109** |

"Other expenses" consist of various minor expenses.

| | | |
|---|---|---|
| **30. (Loss)/ gain on sale of assets** | | |
| Property plant and equipment | 70,042 | 3,026,479 |
| Intangible assets | 121,700 | 1,338,852 |
| Investment property | 20,993,809 | 450,000 |
| Heritage assets | 2,445,000 | - |
| | **23,630,551** | **4,815,331** |

# Notes to the annual financial statements

## 31. Cash generated from operations

| | 2013 R | 2012 R |
|---|---|---|
| (Deficit) surplus | (115,793,316) | 884,280,801 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 513,855,529 | 801,147,512 |
| Gain on sale of assets | 23,527,860 | 4,815,330 |
| Fair value adjustments | (158,078,699) | (1,416,869,972) |
| Impairment loss | 1,485,741 | 5,027,629 |
| Debt impairment | 457,427,988 | 314,129,108 |
| Contribution to provisions | 6,851,148 | 6,412,173 |
| Movement in employee benefit obligation | 16,593,213 | 45,696,887 |
| Prior period error | - | (9,100,545) |
| **Changes in working capital:** | | |
| Inventories | (3,505,200) | (649,193) |
| Other receivables from non-exchange transactions | (174,332,435) | (116,729,415) |
| Trade and other receivables from exchange transactions | (298,834,849) | (321,984,872) |
| Trade and other payables from exchange transactions | (4,695,585) | 164,981,035 |
| VAT | (1,066,696) | (48,828,417) |
| Unspent conditional grants and receipts | 9,889,893 | (39,909,410) |
| | **273,324,592** | **272,418,651** |

## 32. Correction of error

During the 2012/13 financial year the following adjustments were made to transactions whereby amounts were erroneously stated in previous financial periods. The comparative amounts have been restated as follows:

**Transactions affecting statement of changes in net assets: accumulated surplus 2012/13**

| | |
|---|---|
| (1) Interest received-investment | 6,328,963 |
| (2) Depreciation | 296,305,610 |
| (3) Fair value adjustments | (1,412,395,841) |
| (4) Donations | (20,000) |
| (5) General expenses | (6,221,712) |
| (6) Grants and subsidies paid | (60,399) |
| (7) Government grant & subsidies | 1,773,416 |
| (8) Repairs and maintenance | (3,352,375) |
| (9) Other Income | (2,278,538) |
| (10) Contracted services | (874,327) |
| (11) Bulk purchases | 2,054 |
| (12) Finance costs | 2,869,378 |
| (13) Loss on disposal of asset | 1,205,000 |
| (14) Land | (399,148,688) |
| (15) Building property | (203,829,760) |
| (16) Community asset | 578,791,489 |
| (17) Infrastructure | 13,027,523 |
| (18) Other asset | (5,168,287) |
| (19) Intangible assets | 16,327,723 |
| (20) Cash and cash equivalent | 114,928,212 |
| (21) Investments call accounts | (114,928,212) |
| (22)Employee benefits obligations | (519,442) |
| (22) Provisions | (185,624,273) |
| (23) Employee benefits obligations | 185,624,273 |
| | **(1,117,238,213)** |

During the current financial year, investments call accounts were reclassified to cash and cash equivalents and interest paid reclassified to finance costs to give a fair presentation.

Employee benefits obligations was previously disclosed under provisions and has been reclassified for better presentation.

| | 2013 R | 2012 R |
|---|---|---|

Depreciation:Prior period correction of road reserves, road sidewalks, servitudes and various pipe works(culverts and sewer connections that was not previously disclosed in the 2011/2012 asset register)

Fair value adjustment:Prior period correction of road reserves, road sidewalks, servitudes and various pipe works (culverts and sewer connections that was not previously disclosed in the 2011/2012 asset register)

Loss on disposal: PPE land sold in 2011/2012 year, Investment property derecognised not recorded in 2011/2012 year and erroneously included in FAR 2011/2012 and assets relating to Sebokeng west side pump station were not derecognised in 2011/2012

Land was previously disclosed separately. During the 2012/2013 year it was decided to do a correction of error and include land under buildings and community assets

Building property:Land was previously disclosed separately. During the 2012/2013 year it was decided to do a correction of error and include land under buildings and community assets

Community asset:Land was previously disclosed separately. During the 2012/2013 year it was decided to do a correction of error and include land under buildings and community assets

Infrastructure:Servitudes, previously classified as PPE reclassified as intangible assets in 2012/2013

Other asset:Intangible assets i.e computer software, was included under PPE in the 2011/2012 year. It was corrected and transferred to intangible asset register

Intangible assets:Servitudes were classified under PPE in 2011/2012 and reclassified as intangible assets in 2012/2013, Intangible assets i.e computer software, included under PPE – other assets in 2011/2012 was transferred to intangible assets register

### 33. Unauthorised, irregular, fruitless and wasteful expenditure disallowed

| | 2013 R | 2012 R |
|---|---|---|
| Opening balance | 4,327,534 | 176,592 |
| Fruitless and wasteful expenditure current year | 176,468 | 2,365,797 |
| Condoned or written off by council | - | (1,282,351) |
| Subsequently recovered | - | (1,050,072) |
| Unauthorised expenditure | - | 4,117,568 |
| | **4,504,002** | **4,327,534** |

Interest amounting to R176 467.98, was incurred due to late payment of accounts.

### 34. Additional disclosure in terms of Municipal Finance Management Act

**PAYE and UIF**

| | 2013 R | 2012 R |
|---|---|---|
| Opening balance | 7,675,668 | 6,819,452 |
| Current year payables | 108,876,927 | 93,077,811 |
| Amount paid - current year | (99,584,245) | (85,402,143) |
| Amount paid - previous years | (7,675,668) | (6,819,452) |
| | **9,292,682** | **7,675,668** |

| | 2013 R | 2012 R |
|---|---|---|

### 34. Additional disclosure in terms of Municipal Finance Management Act (continued)

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

| 30 June 2013 | Total R |
|---|---|
| Maseko BP | 17,426 |
| Tatae ET | 13,796 |
| Matsei NP | 10,492 |
| Mahlase KM | 7,109 |
| | **48,823** |

| 30 June 2012 | Total R |
|---|---|
| Radebe SJ | 203,713 |
| Hlongwane NG | 62,814 |
| Moera WV | 38,262 |
| Tatae TE | 36,518 |
| Matsei NP | 32,727 |
| Mahlase KM | 28,977 |
| Maseko BP | 24,951 |
| Rapapali LG | 22,249 |
| Tshabalala NS | 19,197 |
| Mzangwa VH | 10,905 |
| Wright JW | 9,827 |
| Skelem PC | 5,228 |
| Mooko CS | 2,821 |
| Rani LB | 2,428 |
| Malisa DM | 2,060 |
| Ranake KJM | 1,780 |
| Sotsu VO | 1,092 |
| Thulo MR | 968 |
| | **506,517** |

### 35. Electricity and water distribution losses

Distribution losses relate to unaccounted for electricity and water losses. These losses arise mainly from illegal connections from both electricity and water networks, physical losses due to network operations and economical losses due to faulty meters. The total distribution losses for electricity is 358 156 982 kilowatts (R211 863 070), 2011/12 (366 289 279 kilowats - R184 959 536) and for water is 29 367 251 kilolitres (R169 274 580), 2011/12 (32 710 681 kilolitres - R148 498 642). The total percentage of distribution loss for electricity is 15.6% (17% for 2011/12) and for water is 31.9% (36.5% for 2011/12).

# Notes to the annual financial statements

### 36. Contingencies

**Contingent liability (civil matters)**

| Claim | Description | Amount |
|---|---|---|
| 1 | Vaalshow Ground-Property rights | 80,000,000 |
| 2 | Pele Selepe-claim for negligence | 5,000,000 |
| 3 | SALA Pension-outstanding contributions | 3,900,000 |
| 4 | Spies & Nkamane-3rd party claim | 1,762,924 |
| 5 | C De Jager-claim for defamation | 1,500,000 |
| 6 | Tladi Kekana- termination of contract | 1,400,000 |
| 7 | Vaalmac- claim for damages | 1,360,000 |
| 8 | DJ Bischoff-unlawful dismissal | 1,200,000 |
| 9 | Janine Snooke- damage to property | 1,000,000 |
| 10 | Castals CC-servitude to property | 760,972 |
| 11 | Maluleke Seriti-Legal fees | 650,000 |
| 12 | Bowman Gilfillan-Legal fees | 500,000 |
| 13 | Jooste- unlawful arrest | 300,000 |
| 14 | Inyata-breach of contract | 270,000 |
| 15 | PH Haman cc-delictual claim | 137,014 |
| 16 | PJ Pienaar-unlawful detention | 100,000 |
| 17 | Super Group-damage to property | 75,000 |
| 18 | Realty North-3rd party claim | 70,000 |
| 19 | PI Kloppers-damage to property | 29,024 |
| 20 | J Cilliers-damage to property | 23,159 |
| | | **100,038,093** |

**Contingent liabilities (Insurance)**

During the financial 2012/13 financial year, the municipality encounted 34 claims, which were repudiated. The total value of repudiated third party claims was R1 574 691.84.

**Contingencies arising from pending litigation on wage curve agreement**

On 21 April 2010 SALGA signed the "Categorisation and job evaluation wage curves collective agreement" (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees' jobs per the TASK job evaluation system.

Subsequent to the signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation.

# Notes to the annual financial statements

## 37. Related parties

Section 56 managers
Councillors

Section 56 managers

No remuneration was paid to families of Section 56 managers

Members of Council

No remuneration was paid to family members of council

All councillors and employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over council in making financial and operating decisions.

## 38. Events after the reporting date

The municipality acquired an overdraft facility amounting to R150 million after the reporting date as resolved by council, furthermore the municipality concluded a contract for the restructuring of the non performing portion of the debtors' book. This entails awarding a contract for the "rights to collect" overdue municipal accounts in excess of 90 days, with the guaranteed proceeds amounting to R240 million.

# Notes to the annual financial statements

### 39. New standards and interpretations

### 39.1 Standards and interpretations effective and adopted in the current period

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from non-exchange transactions

GRAP 24: Presentation of Budget Information in the Financial Statements

GRAP 21: Impairment of non-cash-generating assets

GRAP 104: Financial Instruments

GRAP 103: Heritage Asset – the municipality has taken advantage of the 3 years phase-in period.

### 39.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 — Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions UN the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.
The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

### 39. New standards and interpretations (continued)

**GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognise:

a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees; Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
Defined benefit plans as post-employment benefit plans other than defined contribution plans;
Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:

pool the assets contributed by various entities that are not under common control; and
use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;

Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service; Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;

Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
Termination benefits as employee benefits payable as a result of either:
An entity's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits;
Vested employee benefits as employee benefits that are not conditional on future employment.
The standard states the recognition, measurement and disclosure requirements of:

Short-term employee benefits;
All short-term employee benefits;
Short-term compensated absences;
Bonus, incentive and performance related payments;
Post-employment benefits: Defined contribution plans;
Other long-term employee benefits;
Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
Multi-employer plans;
Defined benefit plans where the participating entities are under common control;
State plans;
Composite social security programmes;
Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

**39. New standards and interpretations (continued)**

Recognition and measurement;
Presentation;
Disclosure;
Accounting for the constructive obligation;
Statement of financial position;
Asset recognition ceiling;
Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the financial statements.

### 39. New standards and interpretations (continued)

**20: Related parties**

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties; identifying the circumstances in which disclosure of the items in (a) and (b) is required; and determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

A person or a close member of that person's family is related to the reporting entity if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity;
- is a member of the management of the entity or its controlling entity.

An entity is related to the reporting entity if any of the following conditions apply:

- the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economicentity of which the other entity is a member);
- both entities are joint ventures of the same third party;
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to theentity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
- the entity is controlled or jointly controlled by a person identified in (a); and
- a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

### 39. New standards and interpretations (continued)

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 1 (as revised 2012): Presentation of Financial Statements**

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendments is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors**

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously: Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 12 (as revised 2012): Inventories**

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

## Notes to the annual financial statements

**39. New standards and interpretations (continued)**

**GRAP 13 (as revised 2012): Leases**

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 16 (as revised 2012): Investment Property**

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 17 (as revised 2012): Property, Plant and Equipment**

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)**

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

## Notes to the annual financial statements

**39. New standards and interpretations (continued)**

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

**IGRAPI6: Intangible assets website costs**

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.
The stages of the websites development can be described as follows:

- Planning — includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development — includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development — includes designing the appearance of web pages.
- Content development — includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.
When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.
The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

## Notes to the annual financial statements

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 40. Employee benefit obligations

**Post employment health care benefits**

| | 2013 | 2012 |
|---|---|---|
| Opening accrued liability | 126,461,042 | 87,419,244 |
| Current-service cost | 1,901,920 | 1,506,446 |
| Interest cost | 10,581,236 | 7,301,883 |
| Contributions paid | (7,824,465) | (7,420,447) |
| Previously unrecognised liability | - | 33,410,017 |
| Previously recognised/liability not applicable | - | (7,976,149) |
| Actuarial gain/(loss) | 14,662,889 | 12,220,048 |
| | **145,782,622** | **126,461,042** |
| Annual expense/ (total) | 7,824,465 | 39,561,061 |

**Key assumptions used**

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 8.02 % | 8.70 % |
| Health care host inflation rate | 7.91 % | 7.91 % |
| Salary inflation | 0.73 % | 7.41 % |

Key demographic assumptions

| | 2013 | 2012 |
|---|---|---|
| Average retirement age | 63 for males, 63 for females | 63 for males, 60 for females |
| Continuation of membership at retirement | 90% | 90% |
| Proportion assumed married at retirement | 90% | 90% |
| Mortality during employment | SA 85-90 | SA 85-90 |
| Mortality post retirement | PA90-1ultimate | PA90-1ultimate |

**Withdrawal from service (sample annual rates)**

| Age | Females | Males |
|---|---|---|
| 20 | 24 % | 16 % |
| 30 | 15 % | 10 % |
| 40 | 6 % | 6 % |
| 50 | 2 % | 2 % |

The projections assume that the municipality's health care arrangements and subsidy policy will remain as outlined and that no contributions are made by the municipality towards prefunding its liability via an off-balance sheet vehicle.

Contributions or benefits paid refer to medical scheme contributions made by the municipality with respect to its subsidy of current continuation members. There are no past service costs, curtailments or settlements to reflect.

**Long service awards (LSA)**

| | 2013 | 2012 |
|---|---|---|
| Opening accrued liability | 59,163,261 | 52,508,155 |
| Current-service cost | 4,017,687 | 5,680,466 |
| Interest cost | 4,704,261 | 3,293,773 |
| Leave/Gifts cashed in | - | (7,244,886) |
| Benefit vestings | (5,707,508) | - |
| Actuarial (loss) / gain | (5,742,823) | 4,925,753 |
| | **56,434,878** | **59,163,261** |

The projected unit credit method has been used in the actuarial valuation of the liabilities. The ARCH actuarial consulting company was appointed to perform the actuarial evaluation.

# Notes to the annual financial statements

| | 2013 R | 2012 R |
|---|---|---|

## 40. Employee benefit obligations (continued)

**Key assumptions**

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 7.07% | 8.11% |
| Future salary inflation rate per annum | 6.72% | 7.20% |
| Net effective discount rate | 0.33% | 6.95% |

Key demographic assumption

| | 2013 | 2012 |
|---|---|---|
| Average retirement age | 63 for males, 60 for females | 63 for males, 60 for females |
| Mortality during employment | SA 85-90 | SA 85-90 |

**Withdrawal from service (sample annual rates)**

| Age | Females | Males |
|---|---|---|
| 20 | 24 % | 16 % |
| 30 | 15 % | 10 % |
| 40 | 6 % | 6 % |
| 50 | 2 % | 2 % |

The projections assume that the LSA arrangements will remain as outlined and that all the actuarial assumptions made are borne out of practice. In addition, it is assumed that no contributions are made by the employer towards prefunding its liability via an off-balance sheet vehicle.There are no past service costs, curtailments or settlements to reflect.

Full details are included in the actuarial valuation report at the municipality.

## 41. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government Gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

| Description | Amount |
|---|---|
| Emergencies | 9,436,532 |
| Month to month contract | 7,486,122 |
| Sole provider | 573,655 |
| | **17,496,309** |

The above services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

| | 2013 | 2012 |
|---|---|---|
| Deviations | 17,496,309 | 7,025,995 |

## 42. Budget differences

**Material differences between budget and actual amounts**

(a) Other revenue: Amount of about R100 million relating to the revaluation of assets was included under other own revenue in the budget.

| | 2013 R | 2012 R |
|---|---|---|

(b) Remuneration of councillors: Councillors allowances were budgeted for on Grade 6 but were paid on Grade 5 ( Remuneration of Office Bearers Act). Councillors allowances will be paid on grade 6 on concurrence by the by the MEC of local government which concurrence is still outstanding.

(c) Debt impairment: This amount is comprised of contributions to 1. debt impairment of R422, 182, 765 and 2. capital expenditure of R346, 325, 007. Debtors of R457, 427, 988 or 8.35% were impaired during the financial year. The amount of capital expenditure is not included in this amount as assets are not finalised yet resulting in the large variance.

((d) Finance costs: An overdraft facility of up to R150 million was secured for the financial year and interest charges on this facility increased our finance charges.

(e) The amounts of depreciation after the implementation of GRAP 17 are much higher because of higher assets values.

(f) Transfers and grants: No transfers and grants were made to other municipalities during the financial year.

(g) Loss on disposal of assets: The projection was based on historical performance and instead a loss was incurred in the 2012 2013 financial year. Profits and losses on sale of assets cannot be estimated accurately.

(h) GRAP 17 implementation resulted in higher asset values.

(i) This relates to donated assets which were received during the financial year. More donations than was anticipated were received. Donations cannot be estimated with accuracy.

## 43. Auditors' remuneration

| | 2013 R | 2012 R |
|---|---|---|
| Fees | 5,513,554 | 5,643,727 |

## 44. Risk management

### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings, cash and cash equivalents, and equity.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (and more specifically, interest rate risk, cash flow interest rate risk), credit risk and liquidity risk.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Long term and other receivables are individually evaluated at reporting date for discounting.

Risk management is carried out under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

| | 2013<br>R | 2012<br>R |
|---|---|---|

### 44. Risk management (continued)

**Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the municipality maintains flexibility in funding by maintaining availability under committed credit lines.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

### 45. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continues to procure funding for the ongoing operations and to ensure proper budgetary control.

### 46. Capital commitments

**The Council has committed itself to the following capital projects:**

| | 2013 R | 2012 R |
|---|---|---|
| **Commitments in respect of capital expenditure** | | |
| • Infrastructure | 193,745,876 | 335,361,955 |
| • Community assets | 38,612,527 | 55,988,839 |
| • Heritage assets | 1,370,121 | 2,007,971 |
| • Other | 11,054,150 | 19,067,040 |
| | **244,782,674** | **412,425,805** |
| **This expenditure will be financed from:** | | |
| • Municipal infrastructure grant | 100,485,440 | 174,159,440 |
| • Government grants | 66,673,079 | 104,206,049 |
| • Council funds | 77,624,155 | 134,060,315 |
| | **244,782,674** | **412,425,804** |

## Schedule of external loans as at 30 June 2013

| | Loan Number | Redeemable | Balance at 30 June 2012 Rand | Received during the period Rand | Redeemed written off during the period Rand | Balance at 30 June 2013 Rand |
|---|---|---|---|---|---|---|
| **Development Bank of South Africa** | | | | | | |
| DBSA Loan (11.81%) | 101731 | 31.12.2012 | 1,870,334 | - | 1,870,334 | - |
| DBSA Loan (15.74%) | 13554/101 | 30.09.2020 | 20,455,540 | - | 1,274,197 | 19,181,343 |
| DBSA Loan at 3 months reset | 13959/101 | 31.03.2017 | 9,646,087 | - | 1,929,217 | 7,716,870 |
| DBSA Loan (13.56%) | 12625/101 | 30.06.2014 | 43,070 | - | 20,122 | 22,948 |
| DBSA Loan (15.26%) | 13014/101 | 31.12.2012 | 174,945 | - | 174,945 | - |
| | | | **32,189,976** | **-** | **5,268,815** | **26,921,161** |
| **Lease liability** | | | | | | |
| Mercedes Benz | | 30.09.2012 | 1,645,556 | 72,958 | 1,718,514 | - |
| Scifin | | 01.12.2012 | 2,031,947 | - | 2,031,947 | - |
| Standard Bank | | 01.12.2013 | 1,222,210 | - | 1,215,538 | 6,672 |
| Man Finance | | 10.11.2012 | 4,916,096 | - | 4,916,096 | - |
| Moipone group of companies | | 04.03.2014 | 4,066,403 | - | 2,309,276 | 1,757,127 |
| Vaal Toyota | | 28.07.2013 | 10,315,980 | - | 9,843,788 | 472,192 |
| | | | **24,198,192** | **72,958** | **22,035,159** | **2,235,991** |
| **Total external loans** | | | | | | |
| Development Bank of South Africa | | | 32,189,976 | - | 5,268,815 | 26,921,161 |
| Lease liability | | | 24,198,192 | 72,958 | 22,035,159 | 2,235,991 |
| | | | **56,388,168** | **72,958** | **27,303,974** | **29,157,152** |

# Emfuleni Local Municipality
## Appendix B

## Analysis of property, plant and equipment as at 30 June 2013

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Transfers/adjustments Rand | AUC transfers Rand | Fair value adjustments Rand | Disposals/Derecognition Rand | Closing Balance Rand | Opening Balance Rand | Derecognition Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Building Property** | | | | | | | | | | | | | |
| Dwellings | 515,396,530 | - | - | - | - | (1,377,315) | 514,019,215 | (119,752,987) | - | (30,312,354) | - | (150,065,341) | 363,953,874 |
| Operational buildings | 27,199,148 | - | - | - | - | - | 27,199,148 | (2,717,707) | - | (797,283) | (1,644) | (3,516,634) | 23,682,514 |
| | 542,595,678 | - | - | - | - | (1,377,315) | 541,218,363 | (122,470,694) | - | (31,109,637) | (1,644) | (153,581,975) | 387,636,388 |
| **Infrastructure** | | | | | | | | | | | | | |
| Electricity | 2,193,424,941 | 2,756,534 | - | - | - | (1,506,267) | 2,194,675,208 | (328,188,566) | 371,946 | (80,124,255) | (30,907) | (407,971,782) | 1,786,703,426 |
| Roads and Stormwater | 6,763,831,805 | 9,777,499 | - | 5,553,029 | - | (374,809) | 6,778,787,524 | (1,072,332,564) | 148,290 | (262,175,966) | - | (1,334,360,240) | 5,444,427,284 |
| Sanitation | 1,256,065,999 | 26,236,424 | - | - | - | (3,258) | 1,282,299,165 | (308,353,128) | 138 | (28,598,907) | (399,226) | (337,351,123) | 944,948,042 |
| Solid waste disposal | 122,834,377 | - | - | - | 19,239,383 | (3,900) | 142,069,860 | (1,472,447) | 3,541 | (19,520,291) | - | (20,989,197) | 121,080,663 |
| Water | 846,386,231 | 20,384,635 | - | 16,975,187 | - | (421,981) | 883,324,072 | (150,992,879) | 53,487 | (21,965,242) | - | (172,904,634) | 710,419,438 |
| | 11,182,543,353 | 59,155,092 | - | 22,528,216 | 19,239,383 | (2,310,215) | 11,281,155,829 | (1,861,339,584) | 577,402 | (412,384,661) | (430,133) | (2,273,576,976) | 9,007,578,853 |
| **Community Assets** | | | | | | | | | | | | | |
| Community facilities | 436,173,927 | 5,273,995 | - | 2,704,676 | - | (21,339) | 444,131,259 | (15,760,463) | - | (6,023,186) | (107,000) | (21,890,649) | 422,240,610 |
| Sports and recreation | 198,048,503 | 2,184,212 | - | - | - | - | 200,232,715 | (40,249,835) | - | (10,118,183) | - | (50,368,018) | 149,864,697 |
| | 634,222,430 | 7,458,207 | - | 2,704,676 | - | (21,339) | 644,363,974 | (56,010,298) | - | (16,141,369) | (107,000) | (72,258,667) | 572,105,307 |

# Emfuleni Local Municipality
## Appendix B

## Analysis of property, plant and equipment as at 30 June 2013

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Transfers/adjustments Rand | AUC transfers Rand | Fair value adjustments Rand | Disposals/Derecognition Rand | Closing Balance Rand | Opening Balance Rand | Derecognition Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| **Heritage assets** | | | | | | | | | | | | | |
| Heritage asset | 460,317 | 7,940 | - | - | 2,197 | (121,700) | 348,754 | (1,037) | - | - | (1,200) | (2,237) | 346,517 |
| | 460,317 | 7,940 | - | - | 2,197 | (121,700) | 348,754 | (1,037) | - | - | (1,200) | (2,237) | 346,517 |
| **Other assets** | | | | | | | | | | | | | |
| Machinery and equipment | 64,290,758 | 1,684,462 | - | - | 1,547,679 | (18,685,739) | 48,837,160 | (33,624,136) | 12,123,929 | (7,048,963) | (397,966) | (28,947,136) | 19,890,024 |
| Furniture and office equipment | 30,432,855 | 1,877,153 | - | - | 2,379,909 | (1,252,876) | 33,437,041 | (16,418,893) | 757,989 | (3,766,257) | (55,090) | (19,482,251) | 13,954,790 |
| Computer Equipment | 16,962,240 | 536,334 | - | - | 622,726 | (3,117,867) | 15,003,433 | (10,300,429) | 2,305,503 | (1,997,694) | (23,239) | (10,015,859) | 4,987,574 |
| Transport asset | 46,707,360 | 1,192,789 | - | - | 2,254,182 | (5,790,031) | 44,364,300 | (25,776,294) | 4,495,876 | (5,659,544) | (352,208) | (27,292,170) | 17,072,130 |
| Finance leased assets | 198,221,633 | - | - | - | - | (30,860,528) | 167,361,105 | (102,944,265) | 22,161,400 | (31,744,426) | (70,934) | (112,598,225) | 54,762,880 |
| Library boks | 35,613,464 | - | - | - | - | - | 35,613,464 | (24,983,069) | - | (793,767) | - | (25,776,836) | 9,836,628 |
| | 392,228,310 | 5,290,738 | - | - | 6,804,496 | (59,707,041) | 344,616,503 | (214,047,086) | 41,844,697 | (51,010,651) | (899,437) | (224,112,477) | 120,504,026 |
| **Total property plant and equipment** | | | | | | | | | | | | | |
| Building Property | 542,595,678 | - | - | - | - | (1,377,315) | 541,218,363 | (122,470,694) | - | (31,109,637) | (1,644) | (153,581,975) | 387,636,388 |
| Infrastructure | 11,182,543,353 | 59,155,092 | - | 22,528,216 | 19,239,383 | (2,310,215) | 11,281,155,829 | (1,861,339,584) | 577,402 | (412,384,661) | (430,133) | (2,273,576,976) | 9,007,578,853 |
| Community Assets | 634,222,430 | 7,458,207 | - | 2,704,676 | - | (21,339) | 644,363,974 | (56,010,298) | - | (16,141,369) | (107,000) | (72,258,667) | 572,105,307 |
| Heritage assets | 460,317 | 7,940 | - | - | 2,197 | (121,700) | 348,754 | (1,037) | - | - | (1,200) | (2,237) | 346,517 |
| Other assets | 392,228,310 | 5,290,738 | - | - | 6,804,496 | (59,707,041) | 344,616,503 | (214,047,086) | 41,844,697 | (51,010,651) | (899,437) | (224,112,477) | 120,504,026 |
| | 12,752,050,088 | 71,911,977 | - | 25,232,892 | 26,046,076 | (63,537,610) | 12,811,703,423 | (2,253,868,699) | 42,422,099 | (510,646,318) | (1,439,414) | (2,723,532,332) | 10,088,171,091 |
| **Assets under construction** | | | | | | | | | | | | | |
| Assets under construction | 224,592,999 | 174,752,977 | - | (25,232,892) | - | - | 374,113,084 | - | - | - | - | - | 374,113,084 |
| | 224,592,999 | 174,752,977 | - | (25,232,892) | - | - | 374,113,084 | - | - | - | - | - | 374,113,084 |
| **Intangible assets** | | | | | | | | | | | | | |
| Servitudes | 13,849,516 | - | - | - | - | - | 13,849,516 | - | - | - | - | - | 13,849,516 |
| Computer software | 28,060,262 | - | - | - | - | (273,987) | 27,786,275 | (17,799,283) | 203,945 | (3,209,211) | (46,328) | (20,850,877) | 6,935,398 |
| | 41,909,778 | - | - | - | - | (273,987) | 41,635,791 | (17,799,283) | 203,945 | (3,209,211) | (46,328) | (20,850,877) | 20,784,914 |
| Investment property | 976,217,000 | - | - | - | 132,032,622 | (2,445,000) | 1,105,804,622 | - | - | - | - | - | 1,105,804,622 |
| | 976,217,000 | - | - | - | 132,032,622 | (2,445,000) | 1,105,804,622 | - | - | - | - | - | 1,105,804,622 |
| **Total** | | | | | | | | | | | | | |
| Building Property | 542,595,678 | - | - | - | - | (1,377,315) | 541,218,363 | (122,470,694) | - | (31,109,637) | (1,644) | (153,581,975) | 387,636,388 |
| Infrastructure | 11,182,543,353 | 59,155,092 | - | 22,528,216 | 19,239,383 | (2,310,215) | 11,281,155,829 | (1,861,339,584) | 577,402 | (412,384,661) | (430,133) | (2,273,576,976) | 9,007,578,853 |
| Community Assets | 634,222,430 | 7,458,207 | - | 2,704,676 | - | (21,339) | 644,363,974 | (56,010,298) | - | (16,141,369) | (107,000) | (72,258,667) | 572,105,307 |
| Heritage assets | 460,317 | 7,940 | - | - | 2,197 | (121,700) | 348,754 | (1,037) | - | - | (1,200) | (2,237) | 346,517 |

## Emfuleni Local Municipality
## Appendix B

# Analysis of property, plant and equipment as at 30 June 2013

| | Cost/Revaluation | | | | | | | Accumulated depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Transfers/adjustments Rand | AUC transfers Rand | Fair value adjustments Rand | Disposals/Derecognition Rand | Closing Balance Rand | Opening Balance Rand | Derecognition Rand | Depreciation Rand | Impairment loss Rand | Closing Balance Rand | Carrying value Rand |
| Other assets | 392,228,310 | 5,290,738 | - | - | 6,804,496 | (59,707,041) | 344,616,503 | (214,047,086) | 41,844,697 | (51,010,651) | (899,437) | (224,112,477) | 120,504,026 |
| Assets under construction | 224,592,999 | 174,752,977 | - | (25,232,892) | - | - | 374,113,084 | - | - | - | - | - | 374,113,084 |
| Intangible assets | 41,909,778 | - | - | - | - | (273,987) | 41,635,791 | (17,799,283) | 203,945 | (3,209,211) | (46,328) | (20,850,877) | 20,784,914 |
| | 976,217,000 | - | - | - | 132,032,622 | (2,445,000) | 1,105,804,622 | - | - | - | - | - | 1,105,804,622 |
| | 13,994,769,865 | 246,664,954 | - | - | 158,078,698 | (66,256,597) | 14,333,256,920 | (2,271,667,982) | 42,626,044 | (513,855,529) | (1,485,742) | (2,744,383,209) | 11,588,873,711 |

## Emfuleni Local Municipality
## Appendix C

### Segmental Statement of Financial Performance for the year ended

| Prior Year | | | | Current Year | | |
|---|---|---|---|---|---|---|
| Actual Income Rand | Actual Expenditure Rand | Surplus /(Deficit) Rand | | Actual Income Rand | Actual Expenditure Rand | Surplus /(Deficit) Rand |
| | | | **Municipality** | | | |
| 1,180,302,311 | 1,389,375,341 | (209,073,030) | Executive & Council/Mayor and Council | 1,229,978,168 | 1,510,316,237 | (280,338,069) |
| (21,227,819) | 89,022,159 | (110,249,978) | Finance & Admin/Finance | 138,703,691 | 90,979,955 | 47,723,736 |
| 5,122,627 | 25,292,663 | (20,170,036) | Planning and Development/Economic Development/Plan | 64,315,854 | 42,262,100 | 22,053,754 |
| 43,579,073 | 48,777,969 | (5,198,896) | Health/Clinics | 43,838,371 | 50,838,119 | (6,999,748) |
| 14,812,054 | 76,655,244 | (61,843,190) | Comm. & Social/Libraries and archives | 12,391,263 | 111,388,113 | (98,996,850) |
| 8,754,619 | 19,291,655 | (10,537,036) | Housing | 7,921,229 | 15,238,507 | (7,317,278) |
| 39,167,451 | 120,521,305 | (81,353,854) | Public Safety/Police | 36,021,464 | 144,639,373 | (108,617,909) |
| 44,492 | 63,033,746 | (62,989,254) | Sport and Recreation | 50,830 | 68,486,286 | (68,435,456) |
| - | 8,818,739 | (8,818,739) | Environmental Protection/Pollution Control | - | 9,938,255 | (9,938,255) |
| 312,583,317 | 334,625,803 | (22,042,486) | Waste Water Management/Sewerage | 322,908,931 | 212,495,015 | 110,413,916 |
| 324,249 | 155,660,286 | (155,336,037) | Road Transport/Roads | 121,356 | 220,719,675 | (220,598,319) |
| 501,083,128 | 515,075,367 | (13,992,239) | Water/Water Distribution | 677,765,334 | 394,264,805 | 283,500,529 |
| 1,440,061,544 | 1,231,121,274 | 208,940,270 | Electricity /Electricity Distribution | 1,633,741,191 | 1,404,515,849 | 229,225,342 |
| 432,570 | 6,628,977 | (6,196,407) | Other/Air Transport | 475,752 | 7,944,434 | (7,468,682) |
| **3,525,039,616** | **4,083,900,528** | **(558,860,912)** | | **4,168,233,434** | **4,284,026,723** | **(115,793,289)** |
| | | | **Municipal Owned Entities** | | | |
| | | | **Other charges** | | | |
| 3,525,039,616 | 4,083,900,528 | (558,860,912) | Municipality | 4,168,233,434 | 4,284,026,723 | (115,793,289) |
| **3,525,039,616** | **4,083,900,528** | **(558,860,912)** | **Total** | **4,168,233,434** | **4,284,026,723** | **(115,793,289)** |